BUILDING SOCIETIES

BY

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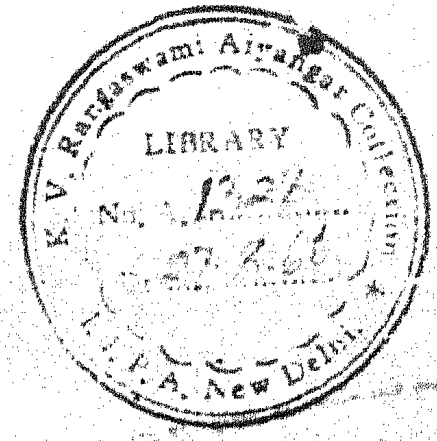
Late Registrar of Friendly Societies



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Dedicated

BY HIS KIND PERMISSION

TO

THE RIGHT HON. HERBERT JOHN GLADSTONE, M.P.,

SECRETARY OF STATE,

WHO RENDERED TO BUILDING SOCIETIES

THE GREAT SERVICE

OF PREPARING AND PASSING THROUGH PARLIAMENT

THE BUILDING SOCIETIES ACT, 1894,

THE BENEFICIAL EFFECT OF WHICH IS SHOWN IN

THE FOLLOWING PAGES.

PREFACE.

It has been suggested to me that a brief, popular treatise, developing the social value of Building Societies, and advocating their extension on right principles, might be useful, not only to the members of those Societies, but also to many of the general public, to whom membership of such a Society might be attractive, if they could be satisfied of its financial soundness.

The present work will, I hope, be found to combine these two elements of utility.

E. B.

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BUILDING SOCIETIES.

CHAPTER I.

THE BUILDING SOCIETY AS A SOCIAL AGENT.

THE relation of landlord and tenant is often a strained one. The tenant is frequently a man whose avocations require that he should live within a certain radius of the spot where he has to carry them on. The space available for building dwelling houses within that radius is limited, and hence there is competition for such houses as are unoccupied, and the rents rise accordingly. The tenant laments that the rent he has to pay consumes an inconveniently large proportion of the income he has available to meet his expenses of all kinds. It seems to him that he is existing for the benefit of his landlord. Of all the necessaries of life—food, clothing, shelter—the cost of mere shelter becomes so onerous that the others have to suffer. The necessaries of civilization—education, fresh air, amusement—become in some cases virtually unattainable. In such extreme cases as

these, to save anything out of income would seem to be out of the question.

There are, however, many cases not quite so bad, where the tenant feels that the large proportion of the income which has to be paid away in rent is hopelessly sunk and, though he is better able than the man whose case we have just cited to suit his necessities to his means, and even to set aside something for the future, cannot help wishing that the payment for rent could be saved so as in some way to supplement that very modest provision. If the payment for rent, instead of being sunk in discharge of his obligations for temporary accommodation could be applied towards the purchase of the house itself, so that he could not only occupy it but leave it to his children after him, he would consider himself a much richer man than he is.

Other minor difficulties arise out of the relation of landlord and tenant. There are differences of opinion as to repairs. If they are to be done by the landlord, the tenant is sure to think him very unobliging and neglectful. If they are to be done by the tenant, the landlord makes requisitions upon him which he considers quite unconscionable. There are burning questions as to fixtures and improvements. The tenant adapts the premises to his own convenience, and the landlord promptly confiscates that which the tenant has put into the property. *Cujus est solum ejus est usque ad cœlum:* The man to whom the soil belongs takes

everything that is put upon it even to the height of heaven itself. *Quicquid plantatur solo solo cedit:* He who plants anything in the soil gives that thing up to the owner of the soil. So beautiful trees in the garden, comfortable features in the house, paid for by the tenant, become the property of the landlord.

The landlord may go further. If the tenant improves the property, and desires to renew the tenancy, the landlord may charge an increased rent in respect of the very improvements which the tenant has made at his own expense, or in respect of any additional value which he may have imparted to the property by his own industry, as in the case of a shopkeeper who, by assiduity in his trade, makes his shop attractive and valuable and creates a certain asset in its goodwill. The landlord may in such case refuse to renew the lease to the tenant and may even let the property to a rival in trade, who will be willing to pay the landlord a high price for the goodwill the late tenant has created. Cases of this kind are in everybody's experience, and go far to explain the creation of unearned increment, and the dissatisfaction which exists as to the state of the law of landlord and tenant.

These grievances would be remedied if the tenant could become "his own landlord." When the qualities of owner and occupier are combined in one person, there can be no quarrel between them. He may consult his own taste and his own

convenience in every detail of his domestic life. He may throw all his energies into his work, whatever it may be, confident that he and those who come after him will not be deprived of the reward of his labours. He will be more highly esteemed by his neighbours as a man of some substance, one established in the place where he resides and likely to remain there. He may even develop a kind of local patriotism, and as a landowner in the parish or place, may interest himself in every public movement that tends to the general welfare of the district in which his house is situated and to the improvement of his property and that of his neighbours.

There is another element tending to the increase of rents to which an occupying owner is indifferent. Notwithstanding the special remedies which the law gives to the landlord to recover his rents, it too frequently happens that a tenant falls into arrears beyond the amount the landlord is able to recover, or makes a moonlight flitting with his goods to defeat the landlord's claim; and houses when vacated by a tenant frequently remain empty for a longer or shorter time. The landlord necessarily makes the solvent and the continuing tenants pay rent that will cover these losses. Like a shopkeeper who gives credit, he makes those who do pay recoup him not only the value of the premises he lets to them, but also the value of the premises he lets to those who do not pay, and of the premises he does not let

at all. All loss, in the long run, falls on the occupier.

However desirous the occupier may be to become the owner of his dwelling, there is this great difficulty in his way—he must have a landlord who is willing to sell to him, and he must have capital enough to buy out that landlord. In the case, which frequently happens, in which a man acquires a small piece of land, on which he contemplates building a house to his own taste, suited to his own requirements, he must have capital enough not only to pay the price of the freehold of the land, but also to pay architect and builder for the construction of the house. Either of these alternatives is usually beyond the means of a man who depends on his own earnings. Such a man, therefore, is compelled to continue the wasteful process of paying rent, with its accompanying inconveniences, unless some means can be found of providing him with the necessary capital.

The provision of this capital is the object for which the building society is established.

The scheme of a building society implies that there are a number of men in the like circumstances who are willing to pool their savings together, so that each in his turn may have an advance of capital towards enabling him to buy or build his house. The original idea was that of a small advance, not exceeding £150, and of a small contribution by each member, not exceeding £1 per month; but the statute of 1836, which

imposed these limitations, did so in the form of a limitation per share and not per member, and did not prohibit the holding by an individual member of any number of shares; so that, if the statute really contemplated the restriction of the benefits of building societies to the very poor, it entirely failed in its purpose. If, however, the limits, instead of being looked upon as a restraining maximum, are looked upon as an enabling minimum, the enactment appears more reasonable. It meant this, that no society should be entitled to the benefits of the Act which did not adopt, as a qualifying unit of membership, a scale that would allow a man who could not afford more than £1 a month to join the ranks of the society. Suppose persons holding 150 shares to subscribe £1 per month. In the first month £150 would be raised, which could be advanced on one of the shares. If the society availed itself of the power to borrow allowed by the more recent Acts, to the extent of two-thirds of its mortgages, it could then borrow £100, and in the second month would have £250 to lend. Upon this it could borrow another £166, and thus have £360 to lend in the third month. Upon this it could borrow £210, and in the fourth month could lend £360, and so on. The members to whom the advances were made would by these means be relieved from the obligation of paying rent, and would have a fund to devote to the repayment of their advances. This would increase the amount available for fresh advances, and

thus, in a comparatively short time, all the members might be accommodated. Each member on receiving an advance of his share or shares would execute a mortgage to the society of his premises, and when he had completely repaid his advance would have that mortgage returned to him, endorsed with a receipt operating as a discharge, and would have handed over to him the deeds of his property, of which he would thenceforth be the absolute owner. It is to be observed that the society would not make the advance unless it was satisfied that the property the member desired to purchase or to build would be adequate security for the money, and, indeed, every prudent society requires a margin for its own security, and will not advance more than a certain portion of the value.

To avail himself, therefore, of the aid of the building society, the member must be in possession of a small capital of his own, equivalent to the margin of safety that the society reserves for itself. Thus, if the margin is one-fifth, and the cost of the house is £500, the member must be able to pay £100 out of his own pocket in order to complete the transaction by borrowing £400 from the society. Even so, however, he will be in a better position than if he endeavoured to borrow from other sources, for the private lender would desire to have a larger margin of safety than the building society would require. The reason of this lies in the difference between an ordinary mortgage and a building society mortgage.

In an ordinary mortgage the lender stipulates for the regular payment of interest on his loan, and for the return of the principal after an agreed term of notice given by either party. The amount due to him remains always the same as the amount originally lent.

In a building society mortgage, on the contrary, the borrower is continually repaying a portion of the principal due as well as the instalments of interest. The contract is for the payment by him of an annuity calculated as equivalent to the amount which would repay loan and interest in a fixed term of years.

In the ordinary mortgage there is no specified time at which the debt is to be discharged. As long as the interest is duly paid, and the security remains unimpaired, the lender is content with the manner in which his money is invested, and the transaction goes on until he for some reason of his own desires to realise the investment, or the borrower for some reason of his own desires to discharge his property from the liability. In the building society mortgage the property is wholly discharged from the liability as soon as the annuity has been fully paid by the borrower for the term of years stipulated in the mortgage deed.

The effect of this may perhaps be conveniently illustrated by a simple example. Suppose a building society mortgage to secure an advance of £100 to be granted for a term of five years, repayable by

instalments of £1 18*s.* 6*d.* per month, which would amount in the aggregate to £23 2*s.* a year, and are equivalent to five per cent. per annum compound interest. At the end of the first year, the borrower would have paid £5, being one year's interest on £100, and the balance of his payments, £18 2*s.*, would go to the reduction of his principal debt, which would then be £81 18*s.* In the second year, the amount required for interest would be £4 1*s.* 11*d.* only, and £19 0*s.* 1*d.* would go to the reduction of the principal, which would then be £62 17*s.* 11*d.* In the third year, £3 2*s.* 11*d.* would be required for interest, and £19 19*s.* 1*d.* would be available to repay principal, bringing the debt down to £42 18*s.* 10*d.* In the fourth year, the interest would be £2 2*s.* 11*d.* and the repayment £20 19*s.* 1*d.*, leaving a debt of £21 19*s.* 9*d.* In the fifth year the interest would be £1 2*s.*, and the remaining £22 would just repay the balance of the debt, and leave 3*d.* over.

The member has paid altogether five times £23 2*s.*, or £115 10*s.*, and has wholly discharged himself of his debt. In an ordinary mortgage, the borrower would have paid £25 only, but that would all have been for interest, and he would still remain liable for the whole £100. He is better off, therefore, under the building society form of mortgage, to the extent of £9 10*s.*

Returning to the question of the margin of safety, it is easy to see that the building society is in a much better position than the private

lender. Suppose it to be one-fifth of the total value of the property, that is to say, that the society requires to hold security on property worth £125 to cover an advance of £100 for five years, at the end of the first year it would still hold security on property worth £125, but the debt covered by it would be £81 18*s.* only, and its margin of safety would be 35 per cent., or more than one-third. So on from the very first payment to the very last, the margin of safety is always increasing. In the private mortgage, where the value of the security and the mortgage debt are always the same, the margin of safety always remains the same and never increases. A building society can therefore afford to lend with a much lower initial margin of safety than a private lender requires. Indeed, the instance we have given involves a larger margin of safety and a shorter time of repayment than would probably be adopted in the generality of cases, and has been given as a simple illustration, not involving a long array of figures. Obviously, the man whose case we have been supposing would find a payment exceeding one-fifth of the advance very much beyond his means, and would require the mortgage to be for a longer term of years, so that the repayments would be smaller. If they could be made so small as not to exceed or at least not greatly to exceed the actual rent he was paying to his landlord, that would be the consummation he would wish. How far this is practicable may be

inferred from a few figures taken at the same rate of interest—5 per cent. per annum.

In ten years a payment of £1 1*s.* 7*d.* a month, or £12 19*s.* a year would be enough to repay a loan of £100 and interest. In fifteen years a payment of 16*s.* 1*d.* per month, or £9 13*s.* a year, would be sufficient. Suppose, therefore, that a loan of £250 would be all that the borrower required by way of supplementing his own resources to buy a house worth £25 a year rent, his repayment for fifteen years would be £24 2*s.* 6d. per annum only, and he would make an annual saving of 17*s.* 6*d.*, and at the end of the fifteen years the house would be his own free of any payment whatever. The case might be made more favourable still if the interest were calculated each month, instead of only once a year.

We have been dwelling on the advantage to a man of his becoming his own landlord, but there is a consideration on the other side which must not be left out of the question. A man knows what he is, but does not know what he may be. In the many changing circumstances of life, things may happen which he does not at present foresee, which may make it necessary or desirable for him to leave his house—it may be, during the period of years in which he has undertaken to repay the advance made to him by the building society. It may become important to him that he should sell the house and redeem his mortgage. The older sort of building societies did not look

favourably upon this. They did not like money to be returned upon their hands out of the regular course of repayment. Accordingly, it grew to be a practice among them to impose very onerous terms of redemption. The device frequently adopted by them was that of allowing the member to buy back his annuity at a lower rate of interest than that which was charged under the mortgage.

Thus, if the repayment annuity was calculated at 5 per cent. interest, as in the examples we have given, they would discount it at 3 per cent. only. For example: if a loan of £100, repayable at the rate of £9 13*s.* a year in fifteen years, were redeemed at the end of the first year, they would multiply the £9 13*s.* by 11·3, which is the present value at 3 per cent. of an annuity for fourteen years, and would actually demand £109 from a man who had already paid £9 13*s.* and had only received £100. It is hardly necessary to say that calculations like these were very unsatisfactory to the borrower, and we believe that the practice has now generally been discontinued; but we mention the matter as an important caution to intending borrowers. Societies are required to state in their rules what are the terms upon which mortgages may be redeemed; and the member should carefully study those rules and see that the terms are equitable before he enters upon a contract which may otherwise be disadvantageous to him.

The terms of redemption should, indeed, never

exceed the balance of principal due upon the advance at the time of redemption, calculated in the manner shown in our example of a five years' loan, and such small redemption fee as may be necessary to cover any extra trouble the society may incur, and to protect it against temporary loss of interest while the money is waiting for fresh investment. Anything more than this is extortionate.

We will now suppose our member—having entered his building society at the age of (say) twenty-five, and received from it an advance for fifteen years, which has enabled him to buy his house, and to repay the advance at a rate not much exceeding the rent he used to pay—to have arrived at the age of forty and got his deeds from the society. He is now the free owner of his own dwelling, and his annual outgoings are diminished by the amount of his repayment subscription. He is by so much a richer man than he was. What will he do with it? Why should he not go on paying it to the society, get another advance, and buy another house? That will be his own by the time he is fifty-five, and he will then be himself that thing which he disliked so much in time past—a landlord. This is not all: the new house will bring him in rent, which will be an addition to his income. What will he do with that? Why should he not apply it towards repaying another advance, and buying another house, and so on to an indefinite extent? This has been

almost literally, the experience of many men, who from small beginnings have come to be considerable owners of house property through the means of building societies. For this and other reasons, it is not easy to ascertain the total number of persons who have been assisted by these societies to buy their own dwelling-houses. The number must certainly be very large, and we think we are well within the mark when we estimate it at a quarter of a million. Such, then, has been the marvellous success of the building society as a social agent. The number of mortgages granted each year probably exceeds 20,000 and the annual advances amount to £10,000,000. The total mortgages subsisting at one time exceed £50,000,000. The relation of these figures to one another indicates that the average term for which an advance on mortgage is granted by a building society would be something like ten years.

About sixty years ago advantage was taken of the Benefit Building Societies Act to establish under it freehold land societies having a political aspect. To be the owner of a forty-shilling freehold gave a vote for the county. This was granted by an Act passed in the eighth year of the reign of King Henry the Sixth (1430), and was not so much the granting of a franchise as the restriction of one that previously existed, for before that time all freeholders voted, and the result was that elections were disorderly. Forty

shillings was a substantial sum then, and the freeholder of that value was probably in a position equivalent to that of a man with £40 now—the prices of the necessaries of life at that time being very low. The forty-shilling qualification, however, remained on the statute book, and it occurred to the founders of freehold land societies that by buying an estate and cutting it up into small plots, each of the qualifying value, they could largely increase the county constituencies and thus promote their own political views. Both the great parties in the State took up the notion, and freehold land societies were formed in connection with each of them. It was soon found, however, that to mix up politics with business did not pay—that the purchasers of the plots would not vote to order or refrain from selling them to persons of any political colour. The distinction between a freehold land society and an ordinary building society is this—that, while the building society has nothing to do with the purchase of the estate on which it advances money, but merely lends money to the purchaser to enable him to buy, the freehold land society has first to acquire the estate before it can cut it up into suitable lots and sell them to the members. The society, as such, having no power to hold land in its own name, was compelled to do so by means of trustees, in whom the legal property was vested. This proved so inconvenient and dangerous that, in most cases,

the business of the freehold land society under the Building Societies Acts has been abandoned, and companies have been formed which are able to acquire the estates and sell them to the members of the building societies, which assist the purchase by advances. Indeed, the Building Societies Act of 1874 clearly did not contemplate the carrying on under it of the business of a freehold land society, for it enacted that beyond a building for conducting business, and for that purpose only, a building society should not hold land, and that any land to which it might become entitled by foreclosure or by surrender or other extinguishment of the right of redemption, should as soon afterwards as may be conveniently practicable be sold or converted into money. The scheme, therefore, by which the building society was to become a social agent in the political sense, has ceased to be an element of any importance in the history of the movement.

As a social agent in the ordinary sense, the building society has been of great value. We have already alluded to the social consideration acquired by a man who lives in his own house, and to the means by which many members of building societies have become owners of a considerable amount of house property. As we have said elsewhere, "To many a man the day when the repayments terminated, and he was able henceforth to live in a house of his own, rent free, was a beginning of days of prosperity and comfort, leading,

in some cases, to comparative opulence, or at least to such an amount of provident accumulation as to remove all cause of anxiety from the contemplation of approaching old age." ("Provident Societies and Industrial Welfare," p. 164.) That observation has been criticised, but only for inadequacy. Mr. Walbank, the able manager of a building society at Bingley, in Lancashire, contended "that the true prosperity of a borrower from a building society does not commence when he has paid off his mortgage, but in the majority of cases it dates from the very start. He rests under no disagreeable obligation whatever—he may proclaim it from the housetops without any damage to his character. The society is as much obliged to him as he is to the society—it is a case of mutuality pure and simple." It may certainly be admitted in favour of Mr. Walbank's contention, that the transition from paying rent to putting aside the money for the purpose of making the house his own, is a distinct step upwards, and is the first step; but we rather adhere to our own more moderate statement, and advise the borrower not to "halloo before he is out of the wood."

Like all other mutual societies, the building society is a social agent in respect of its principle of self-government. Every member has equal rights of voting, and the ultimate source of power is in the general meeting which every member may attend. He is there free to criticise the acts

of the managing committee and officers, and to offer himself for election on that body. He is thus responsible for his share in the management of the society, and has only himself to blame if he acquiesces in its being entrusted to persons who are unworthy of his confidence. It is not every member of a building society who rises to the height of the position he holds in this respect. Many of the calamities which have befallen societies have arisen from the facts that the members at large have reposed blind confidence in the managing committee, and that they in their turn have reposed blind confidence in their officers, or, more generally, in one officer who has been able to assert an ascendancy over them, and has been too often tempted to use that ascendancy for his own purposes and to convert what should be a mutual society into a "one man" company. This can never happen without censurable negligence on the part of the members; and it is therefore their highest interest vigilantly to watch over the proceedings of those they entrust with the responsibility of management. The members who do rise to the height of their position, not only conserve their own interests and save the reputation and the credit of the society to which they belong, but also indirectly benefit themselves by the training in public business, the knowledge of affairs, and the power of influencing other minds, which they thus acquire. If it were possible to ascertain the number of

persons connected with building societies who have been elected to take part in the various branches of local government, or have been appointed justices of the peace, some idea would be formed of the share membership of these societies has had in qualifying for public service. A writer in the *Times* (12th September, 1903) remarked as one of the indirect effects of membership of provident societies generally that "they tend to make good citizens. In all the talk about the shortcomings of our system of education and the advantages which the German nation has enjoyed, too often the fact is lost sight of that in the membership and still more in the management of the societies there is training of the utmost value. The humblest member probably knows more about the affairs of his society than the mass of his betters know about the affairs of the companies of which they are shareholders. There are brought before him the same questions as those which men of business have to solve, and if he has any aptitude for affairs, he picks up experience which will be of value to him in his own occupation. The operation of these societies has been to diffuse a form of moral education as useful as it is technical, and to create a true *corps d'élite* of working men."

As Lord Brassey observes (Sixty Years of Progress, p. 164), ownership of their homes by the workmen was held by Le Play to be among the most effective means of social improvement. He

praises the "journaliers qui, à force de sobriété et d'epargne, s'assurent avant tout autre satisfaction la propriété d'un lambeau de terre et d'une humble cabane." May we not add that every step in social prosperity is an incentive to mental improvement? Instead of the old saw,

> "When house and land are gone and spent,
> Then learning is most excellent,"

we should be disposed to say

> "When house and land have been acquired,
> Then learning is the more desired."

CHAPTER II.

THE BUILDING SOCIETY AS A MEANS OF THRIFT.

We have hitherto considered the building society from the point of view of the borrower only. There cannot be borrowers unless there are also investors to provide the funds. These investors are of two classes—shareholders and lenders. We have observed that a member cannot expect the society to lend him the whole of the money with which to buy his house, but must himself provide that portion of it which the society requires for its margin of security. Unless he has an accumulated fund out of past savings, or unless some casual legacy or other windfall occurs to him, his best way of doing this is to become an investing member until the value of his investment rises to the amount of that margin. The society will then pay the full amount required for purchase of the house, partly by enabling the member to withdraw the accumulated amount of his investment, partly by an advance out of the general funds of the society, accumulated by the investments of other members. We have observed, further, that in a society of members holding say 150 shares upon which £1 per share is payable,

the £150 which would be thus received in the first month would be available for an advance on one share only, and the holders of the other 149 would have to wait a shorter or longer time before they could get their advances. This gives rise to two problems:—first, the manner in which the priority of receiving the advance is to be determined; second, the creation of a class of investing members, who either do not care for an advance at all, or are at least willing to continue paying on shares until their turn comes for getting the advance.

The first problem we will deal with hereafter: the second, we may now proceed to consider. The original idea of a benefit building society was that it consisted wholly of persons who were desirous to buy or build houses. This is very clear from the language of the Act of 1836, which recited that "certain societies commonly called building societies have been established in different parts of the kingdom, principally amongst the industrious classes, for the purpose of raising by small periodical subscriptions a fund to assist the members thereof in obtaining a small freehold or leasehold property, and it is expedient to afford encouragement and protection to such societies and the property obtained therewith," and defined the object of such societies as to raise "a stock or fund for the purpose of enabling each member thereof to receive out of the funds of such society the amount or value of his or her share or shares therein, to erect or purchase one or more dwelling

house or dwelling houses or other real or leasehold estate to be secured by way of mortgage to such society until the amount or value of his or her shares shall have been fully repaid to such society with the interest thereon and all fines or other payments incurred in respect thereof."

It was evidently in the contemplation of the framers of this statute that every member who joined the society would do so with the intention sooner or later to buy or build. The sum to be advanced to him for that purpose was to be the amount or value of his shares. This has reference to two methods of working which were common in the early building societies. In the one case, the advance would be made of the full amount of the share, say £150, and the member would upon receiving it pay a subscription of twice the amount he paid previously, so as to compensate the other members by way of interest for the deferment of their expectations of obtaining an advance.

In the other case, the advance would be only of the value of the share, which at the time of the commencement of the society would be half the full amount, or say £75, and would gradually increase until, at the termination of the society, the last man would get his full £150, all the members meanwhile continuing to pay the same subscription, whether their shares were advanced or unadvanced, the compensation to members for the deferment of their expectations of obtaining an

advance being in this case the increase in the amount of the advance when they did get it. The two systems produced practically the same result, the double subscription in the one being the equivalent of the half-advance in the other. Each member, as he received his advance, was to mortgage the property he acquired, so as to secure to the other members the fulfilment of the contracts of which he had had the full benefit, and the obligations of this mortgage were to subsist until each member had been placed in the same favourable position. In societies which raised funds by the aid of borrowed money, this programme could be completely carried out; but all societies did not do so, and indeed it was for some years considered doubtful whether any societies had legal authority to borrow. Where a society did not borrow, it is evident that in the case of the last man at any rate no mortgage would be necessary, for his payment would be free of any obligation to his brother members, and indeed the money paid to him on the closing of the society would be an accumulation with interest of the money he had himself paid in subscriptions, and would not be in any sense an advance. It would be quite immaterial whether he used it to buy or build a house or for any other purpose. In other words, the last man would be a pure investor and not a borrower at all. This would probably extend to the last two or three or more men, as the advance to them would be so small and for so short a time that it would be absurd to

make it the subject of a mortgage. Moreover, the Act provided that no member shall receive or be entitled to receive from the funds of such society any interest or dividend, by way of annual or other periodical profit upon any shares in such society, until the amount or value of his or her share shall have been realised, except upon the withdrawal of such member, according to the rules of such society then in force. This enactment involves two things—the accumulation of the funds at compound interest, and the right of a member to withdraw his accumulations if he did not want an advance. The two classes of members —those who waited to the end without having an advance, and then received the full accumulated amount of their shares, and those who withdrew beforehand, and received the partial accumulation that their subscriptions had already earned—were investing members and not borrowing members. When about 1846, the system of permanent societies was invented, the distinction between the investing and the borrowing members became even more obvious. All the societies established before that date were terminating societies, in which every member began to contribute to the funds as from the date of the establishment of the society, and all the unadvanced shares were realised, and all the advances on shares paid off at the date of the termination of the society. When one society had enrolled its full number, or when it had lasted so long that new members could not be attracted

to it, the condition of paying up the amount necessary to start the new member on an equality with the old members being too onerous, another society was formed under the same management, and so on. There was thus constituted a succession of societies, from the first so-and-so building society, to the twenty-first so-and-so building society, or even more. The suggestion was then made that this separate organisation for each society was really unnecessary, and that for a succession of societies, each running its prescribed course, one society having a succession of members, might be substituted. Into the details of the distinction between the two classes of societies, we shall enter hereafter ; for the present purpose, it is sufficient to say that the permanent system allowed of a member entering at any time without paying up back subscriptions, and receiving an advance at any time, repayable in any agreed term of years. The membership terminated, in the case of an unadvanced shareholder when the amount of his share was realised, in the case of an advanced shareholder when the term for repayment expired. There was thus a marked distinction between the two classes. As each term expired, the society would shed those of its members who had been paid out or had repaid their advances, but would continue to exist as constituted of the other members who entered after them. It was soon seen that it was not necessary for every member to contemplate borrowing, and a class of members

arose who looked upon their shares as a mere investment. It was apparent, too, that building society shares were a profitable investment. Compound interest is a potent factor. There are few investments by which it can be obtained. You may put your money in a savings bank and leave it there, at compound interest, but the rate of that interest is low. In the building society the rate of interest was high. We have given examples of repayment calculated at 5 per cent., which is at the present time the rate adopted by many societies; but in the early days of building societies 6 and 7 per cent. were rates which prevailed. When a society was able to borrow money in aid of its shareholders' capital to the extent of twice the amount subscribed by the members at a rate lower than that paid by its borrowers, say at 5 per cent., a margin of profit could be realised, which would make the share of the investing members equal in some cases to 10 per cent. The borrowers were willing to pay the high rate of interest involved in the calculations, partly because they did not know they were paying it, and partly because the system of monthly repayment contribution made it easy to them. For example: The repayment contribution for an advance of £100 for 10 years at 7 per cent. is £14 5*s.* per annum or £1 3*s.* 9*d.* per month, which is only 2*s.* 2*d.* a month more than the repayment at 5 per cent.; but it would present itself to the mind of the borrower in something

like this form: I have 10 years to repay my loan in, and altogether I shall have to pay £142 10s., that is, £100 for principal and £42 10s. for interest, so I shall really only be paying 4¼ per cent. interest after all. These vague and inaccurate views did really prevail, and it was not till after the competition for business had had its usual effect in cutting down prices that lower rates were generally adopted. Thus for a long time the building society became the favourite savings bank of the people. The interest it earned far exceeded that of the ordinary savings bank, and the security seemed to be as good. Indeed, as long as a building society is well managed, it can offer to its members and depositors a very sound security, for, as we have seen, the margin of safety is continually increasing. The building society, therefore, held for a long time the position of a most valuable means of thrift. In the case of the ordinary member who entered upon an obligation to pay up his shares by monthly contributions, that obligation was a direct stimulus to saving. If he missed a payment he incurred a fine. Many a member would have found other more tempting methods of getting rid of his money if this gentle compulsion had not been imposed upon him by his society. In the case of the depositor, no such obligation was incurred, but he was offered a most convenient and remunerative method of investing his savings in large and small sums without any of the uncertainty arising from fluctuations in the

market. Accordingly the reputation of building societies became very firmly established, and they conferred upon the mere investor benefits almost as great as those derived by the borrower.

There is, however, in human affairs, no escaping from the law of mutability; no denial of the general principle that the rate of interest and the degree of security are in an inverse relation to each other. Later on we shall discuss at more length the perils which environ the building society. At present all that is necessary to be said is, that at various times and in different places building societies have come to grief. The more remote results of this have been even more disastrous than the immediate effects. The investors who have lost money have sustained a discouragement to their efforts at saving corresponding to the confidence which they felt beforehand. At times a sort of panic has spread among them, and the good which the societies did as incitements and inducements to thrift has been for the time absolutely neutralised. If a moment's moralising upon this question may be permitted, we would say that those who by misconduct or negligence conduce to the failure of a building society incur a responsibility beyond that which the laws attach to their misdeeds. The discouragement to thrift caused by the failure of a building society is almost as great a calamity as the actual loss incurred. In the words which we used in addressing the London Chamber of Commerce

on this subject in 1892: "It must always be borne in mind that in a building society, more perhaps than in any other similar institution, there is and can be no real security for good management other than that of the selection by the members of honest and capable men to be the managers and directors. Managed with judgment, the legitimate business of a building society may be relied on as profitable, as it is certainly most beneficial to the members who avail themselves of its help to become their own landlords and to become in a small way owners of house property. But if once the directors lend themselves to bolster up the credit of the jerry builder, or, worse still, to snatch at an apparent profit by large transactions of a speculative kind, they invite disaster to themselves and to those who trusted them. Thinking of the vast good which has been done by building societies in the past—the thousands whom they have helped to competence and comfort—I feel constrained to address one earnest word to the managers of building societies. It is the way in which you, gentlemen, discharge yourselves of your trust rather than anything Acts of Parliament can do, which will determine whether these useful institutions are to be discredited and destroyed, or whether they are to continue and extend their beneficent operations among the thrifty and provident. God help you to be faithful!"

One other point in the relation of the building

society to its investors of both classes—shareholders and depositors—has to be considered. Every investor desires not only good interest on his money, but also the certainty of the return of the principal when he requires it. With regard to the interest that, in the case of the shareholder, is usually accumulated until the share is paid up. If he does not then withdraw the accumulated amount, he is usually placed in the same position as the depositor and receives the interest periodically in cash. With regard to the principal, the case is different. When once a society has made an advance on mortgage, the money so advanced is locked up beyond the society's control, and repayments only come in gradually during the term of years for which the advance has been granted. The society, therefore, cannot undertake to pay an investing member the amount of his accumulations promptly whenever he may wish to withdraw them. It must have time to raise the money. Accordingly, provision has to be made in the rules that members desiring to withdraw are to be paid out in rotation as the funds come in. It is sometimes provided, moreover, that withdrawing members are to be paid only out of certain specified funds, such as the fund arising from repayments of advances received after the date of notice of withdrawal, with the view of enabling the society to extend its business out of other funds at its disposal, as otherwise the withdrawals of members might altogether cripple its operations

as a profit-making concern. Indeed, speaking generally, it is just that the claims of members who wish to withdraw should be made subservient to the interests of those who elect to remain till their shares have been completely realised. Where a society has sustained losses, this consideration becomes a matter of importance. If a member withdraws without contributing to those losses, he imposes his share of them upon the members who remain, and thus increases their burden, while he wholly escapes from his. This was sometimes overlooked in the early days of building societies; either the founders did not contemplate the possibility of loss, or disregarded it as being only a slight probability. At any rate, they frequently made no provision for it. As we said in 1893, it is a curious illustration of the sanguine character of building society promoters, and also of the great confidence that used to be felt in these societies as profit-earning institutions, that comparatively few societies make in their rules a distinct and clear provision as to how losses which may arise are to be met. Provision for paying out members on withdrawing the full amount of their subscriptions, with interest and bonuses out of profit, are common. Hence, when rumours of difficulty and loss arise, there is a great inducement to members to give notice of withdrawal and avail themselves of the too generous provisions of the rules, leaving the society as constituted by the members who are last in the race for withdrawal worse off than

before. In a case which went up to the House of Lords, a society which found itself in difficulties, resolved to write off an equal sum from the amount standing to the credit of each shareholder, and thus apportion the deficiency equitably among all the members. The rules provided that each member withdrawing should be paid the amount standing to his credit. A member who had given notice claimed to have returned to him the whole amount which had been standing to his credit before the deduction. The society contended that the amount standing to his credit was only that which remained after the proportion of loss had been written off. The House of Lords held that the rules were the contract between the member and the society, and that a mere resolution of the members could not deprive a withdrawing member of any right he had under the rules, however his exercise of that right might be injurious to those members who remained. We confess we have never been much impressed with the soundness of this judgment. The noble and learned lords who delivered it made speeches which read much more like political orations than judgments on a dry point of law, and their utterances on the subject of the sacredness of contracts are quite mediæval. Courts of equity have been engaged for centuries in relieving men of contracts less burdensome and less foolish. One noble and learned lord was careful to define a number of things that a building society is not:—

it is not a joint stock company, it is not a common law partnership, and so forth. He might as well have said, it is not the deck of a steamer or the car of a balloon, but it ought at least to have this much in common, that when it goes down, all who are in it share the same fate. Another noble and learned lord had the Irish Land League on his mind, and enlarged on the tendency of people to break their contracts as a thing that must be checked. The fact is, that there was no contract between the withdrawing member and the remaining members that he should have all the profit and they bear all the loss; neither he nor they dreamed that there would be any loss. If the other members had entered into a contract with him that he should be paid in full, he had equally entered into a contract with them that they should be paid in full. Why should one contract be enforced and all the others disregarded? Their lordships created the contract not out of what the rules said, but out of what they did not say, and produced the result that in a mutual society one man got a benefit that he never bargained for at the risk of the others. It is not the mere words of a contract, but the substantial thing which was in the minds of both parties when they used those words, that is the real meaning of a contract. No member of the society attributed to the bargain he was making the consequences which the decision of their lordships attached to it.

However, the decision was given by the highest court of appeal in the country, and *Auld* v. *The City of Glasgow Building Society* is law. Unless you provide how losses are to be ascertained and provided for in the rules of your society, you run the risk that they will be borne by the wrong shoulders. The Act of 1894 has, however, met this difficulty, by requiring every building society established after that date, and every older building society making a new set of rules, to provide in its rules the manner in which losses are to be ascertained and provided for. Henceforth, no question can arise of what the contract really is between the members, for that contract will be clearly expressed in the rules and not left to mere inference.

When a loss is evenly distributed over a large number of contributories, it is not likely to be ruinous to any, but the Act of 1874 provided another safeguard for the investing shareholders. It enacted (by s. 14) that "the liability of any member of any society under this Act in respect of any share upon which no advance has been made shall be limited to the amount actually paid or in arrear on such share, and in respect of any share upon which an advance has been made shall be limited to the amount payable thereon under any mortgage or other security or under the rules of the society."

When the Act of 1836 was passed, the idea of limited liability in partnership undertakings of any kind (except those created by Royal Charter) had not been entertained. Companies were then

formed only by deeds of settlement, and every member was liable to his last shilling and his last acre for their debts. It did not occur to the Legislature to exempt members of building societies from this liability. But before 1874 much had happened. Many building societies had been wound up compulsorily by the Court of Chancery, and in some cases heavy loss had fallen on individual members of those societies. In 1855 the Limited Liability Act had been passed—perhaps the most important of the measures for which the public was indebted to the Right Hon. Robert Lowe, afterwards Lord Sherbrooke. In 1862 the Companies Act was passed, which is still the foundation of the law with regard to companies. In the same year, the Industrial and Provident Societies Act was passed, which extended the benefit of limited liability to the members of those societies. For twelve years longer, however, the members of building societies had to bear the burden from which these other societies and the companies had been relieved. It was not surprising, therefore, that the framers of the Act of 1874 should think this a grievance that required remedy. A member of a building society may now, if the worst comes to the worst, lose the money he has paid in, but he cannot be compelled to throw away any more good money after the bad.

We must not, however, overlook the fact that there are two classes of investors, the shareholders and the depositors or lenders. The depositor is,

of course, a mere creditor. As such, his claim should not be affected by any losses the society may sustain. But he is a creditor with a difference. He is not what may be called an altogether outside creditor. He is affected with notice that the shareholders are not liable to contribute anything beyond the amount they have already sunk towards the losses of the society. Accordingly, if those losses are so excessive as to more than absorb all that the investing members have paid in, that excess must fall upon the depositors. In one notorious case, that of the Liberator Building Society, there was nothing left, shareholders and depositors being alike defrauded of every penny they had paid in; but, as we shall see later on, that deplorable case is not to be treated as typical of a genuine building society of any class. Still, there have been cases of less magnitude, in which a portion of the loss has had to be borne by the depositors. In one case, that of the Portsea Island Building Society, a statutory arrangement was effected by which the shareholders and depositors were placed on the same footing, and the amount due to each member and depositor was diminished in the same proportion. The reason for this was that the accounts of the society were so confused that it could not be ascertained whether any particular depositor had a legal claim on the society or not, and accordingly those interested agreed almost unanimously to a settlement by Act of Parliament which would avoid costly litigation. In this

respect, also, a depositor or lender, is a creditor with a difference; for the Act of 1874 requires not only that he shall have notice, by endorsement on his deposit book and on every acknowledgment or security of any kind given for his deposit or loan by the society, of the provisions of the Act as to the limitation of the liability of members, but also of the provisions of the Act as to the limitation of the society's power to borrow. If, at the time he makes the deposit or loan, the society has exhausted its power to borrow as defined by the Acts of 1874 and 1894, or any still more limited power to borrow that may be defined by its own rules, the depositor or lender loses his rights. This seems, in fact, rather hard upon him, for he has no means of getting behind the scenes and ascertaining the real facts as to what the society has already borrowed and what is the amount for the time being secured to the society by mortgages from its members, still less can he tell how much of that amount relates to mortgages that have been taken into possession or fallen into arrear for twelve months; yet if the amount borrowed exceeds two-thirds of the amount secured, after deducting those bad bargains, his claim may be defeated and his money may be lost.

It would seem, from all this, that both the investing members, and the depositors, or lenders, are called upon to exercise great vigilance in the protection of their own interests; and that the law, while favourable to them in some respects,

affords them—and can afford them—no adequate protection against loss; yet the fact remains, that a well conducted building society, useful as it is to the borrower, is, as it always has been, one of the most profitable and secure of all possible investments for the investor; and building societies are accordingly, as they have been for many years, the favourite depository of the savings of large classes of the people. The one condition on which they can retain that position is the condition of honesty, capacity, integrity, intelligence, and vigilance in the managing body.

CHAPTER III.

THE BUILDING SOCIETY IN HISTORY—1836 TO 1874.

OUR views of the relations of the building society with its borrowers and investors respectively have given us glimpses of its history, but before proceeding with the consideration of those practical questions which are involved in the building society as a matter of business, it will be desirable that we should approach that subject by a more orderly and complete statement of the history of the building society.

The earliest authentic trace we have is given by a decision in the law courts. (See East's "Reports.") In the course of litigation arising in 1812, a document was put in evidence dated 1809, which formed the deed of settlement of a society termed the Greenwich Union Building Society.

A mention of building clubs in Birmingham occurs in 1795, and that date is interesting, because it coincides with the date of formation of many other provident institutions. The last decade of the eighteenth century and the early years of the nineteenth were wonderfully fertile in schemes for the benefit of the labouring classes. In 1793 the first Friendly Societies Act was passed. About the

same time the earliest co-operative stores and workshops were founded. Saving banks originated at the same period. It is certainly noteworthy that building societies also should have begun to exist about the same time. It is surely not fanciful to associate this provident activity with the influence of the French Revolution in turning the minds of men towards measures having for object the strengthening the foundations of society by promoting the welfare of the working classes.

There are traces of other building societies in various parts of the country and in Scotland, but no evidence so definite as that afforded by the case in East's "Reports." Most of the societies formed in the early years of the movement were no doubt established by deeds of settlement. There had been, meanwhile, a growing tendency to extend the benefits of the Friendly Societies Acts to various classes of meritorious societies, which led in 1834 to the extension of the purposes for which societies might be established under those Acts to "any other purpose which is not illegal." The generality of these words was limited by the rule of construction to such other purposes as are of the like kind with those purposes which were specified in the previous part of the enactment.

There is reason to think, however, that under this and previous Acts several building societies had became registered as friendly societies. In 1836, the matter was set at rest by the passing of

the first Benefit Building Societies Act. It recognised the existing societies and admitted them to its privileges upon certifying and depositing their existing rules, which they were not required to alter in any manner. It also extended to benefit building societies all the provisions of the Friendly Societies Acts of 1829 and 1834 so far as the same or any part thereof may be applicable to the purposes of any benefit building society and to the framing, certifying, enrolling and altering the rules thereof; and it made those provisions a part of the Benefit Building Societies Act in such and the same manner as if the provisions of the said Acts had been therein expressly re-enacted.

The effect of this enactment was curious and unfortunate in two respects. The Friendly Societies Acts of 1829 and 1834 were materially altered in 1846 and wholly repealed in 1850, but as they had been by these words incorporated in and made part of the Act of 1836, the amendments of 1846 and the repeal of 1850 did not affect them in their relation to building societies. To take one instance only—under the Act of 1829 a barrister had been appointed to certify the rules of societies. The Act of 1846 constituted that barrister the Registrar of Friendly Societies, and in that capacity conferred upon him the functions vested by the earlier Acts in the clerks of the peace, and in addition confided in him some new and extensive powers and responsibilities. None

of them were extended to the building societies. Their rules still had to be certified by the barrister, and still deposited with the clerk of the peace. Although the offices of barrister and registrar were held by the same individual, as registrar he knew nothing of what happened to the building societies, and neither as barrister nor as registrar had he authority to exercise towards these societies the wholesome powers of requiring returns, settling disputes, retaining and registering rules, and the like, which the new Act gave him authority to exercise towards friendly societies. His only function was the certifying rules and amendments of rules. Indeed, he had frequently to certify an amendment without any authentic knowledge of the rules to be amended.

The other respect in which the incorporation of the Acts of 1829 and 1834 in that of 1836 was unfortunate in that it was partial. It extended only to such portions of those Acts as were "applicable to the purposes of a building society." Now no section of an Act of Parliament bears evidence upon its face of what it may be applicable to. Take, for instance, the 32nd section of the Act of 1829, which enacted that a minor might become a member of any such society and should be empowered to execute all instruments, give all necessary acquittances and enjoy all the privileges and be liable to all the responsibilities appertaining to members of mature age, notwithstanding his or her incapacity or disability in law

to act for himself or herself: provided always that such minor be admitted into such society by and with the consent of his or her parents, masters, or guardians. Is this a provision applicable to the purposes of a building society? Surely not, for those purposes are to enable each member to acquire real or leasehold estate; and a minor cannot acquire real or leasehold estate, and although the Act says he may "execute all instruments," that cannot mean that he may grant a mortgage to the society. On the other hand, as time went on and the distinction between the investing and the borrowing member became more obvious, it was felt that to allow a child to hold an investing share in a building society was to secure him a considerable direct benefit, and at the same time to give him a valuable object-lesson in the advantages of thrift. Infant membership accordingly became very common, though there were grave doubts as to its legality.

Again, section 26 contained provisions for the dissolution of a society, requiring the consent of all persons then receiving or entitled to receive any benefit from the funds. If these words could have been treated as surplusage, the rest of the section might have provided a cheap and satisfactory method of dissolution for a building society, and indeed we have heard of cases in which a building society has actually been dissolved under the provisions of that section without any objection being raised by anybody concerned;

but we believe the better construction is that this is one of the sections not applicable to building societies, and the courts have held that the proper method of dissolving a building society is by winding up under section 29 of the Companies Act, 1862, as an unregistered company. In terminating societies and some permanent societies, the society when all its members have been paid out simply comes to an end and no formal dissolution takes place; but in cases where from any cause an earlier dissolution becomes necessary, the expense of compulsory winding up under the Companies Acts was added to the loss sustained by the members.

There were other minor difficulties of construction arising from the incorporation of these Acts of 1829 and 1834 in the Act of 1836, but those we need not pursue further. We may turn to the more pleasant task of considering the benefits which the Act of 1836 conferred on members of building societies. First, it substituted for the old deed of settlement a book of rules and exempted it and other documents necessary for use from stamp duty. Second, it relieved societies from the usury laws which were then in force, and would have considerably hampered them in their work. Third, it enabled them to adopt and prescribe by their rules model forms of conveyances, mortgages and other instruments, and thus to avoid much expense in law costs. Fourth, it enabled them to discharge a mortgage

by a mere receipt endorsed upon it without a reconveyance. This valuable privilege was afterwards extended to friendly societies and industrial and provident societies. It is a curious illustration of the slowness with which an obvious reform is accepted by the British nation that although it has been enjoyed by those societies for seventy years, and has saved to hundreds of thousands of mortgagors the unnecessary cost of a formal reconveyance, no law reformer has yet agitated for its being extended to every mortgage. There is no reason in the world why the property subject to a mortgage, whether to a society or corporate body or any individual, should require to be reconveyed to the owner when the mortgage is paid off. Whatever the form of a mortgage may be, its legal construction and effect have long been established. It is a mere charge upon the property, and a receipt purporting that the property has been discharged of it is all that the case requires. The Act did not extend to building societies the privilege enjoyed by friendly societies of depositing funds in savings banks or with the Commissioners for the Reduction of the National Debt. It may be that here was an indication that the framers of the statute foresaw that a building society would become its own savings bank. The Act extended to Great Britain, Ireland, and Berwick-upon-Tweed.

Under this Act, as we have seen, building societies flourished for many years; and great as were the

inconveniences caused by some of its provisions, they were not removed till after the Act had been in force thirty-eight years. Even then, a considerable number of the existing societies preferred a continuance under the old Act, with all its defects, to the acceptance of the conditions attaching to the benefits of the new Act.

Some of the earlier societies framed their plans upon accurate views of the working of compound interest; but that is an abstruse question, requiring some difficult study, and it is not surprising that other societies, either under the stress of competition or from want of knowledge of the conditions of the problem, framed plans that would not hold water. Some of these were examined and exposed by the late Mr. Scratchley, by whom the present writer had the good fortune to be trained in actuarial science, and to whom he owes his early initiation into the subject of this little work. In his "Treatise on Building Societies," first published in 1847, Mr. Scratchley quoted cases where societies proposed to last ten years only and sometimes for a less period, the shares of which were £120 and the payments of the investors 10s. a month. To effect this, it would be necessary for the society continually to invest and reinvest its subscriptions at the rate of 14½ per cent. per annum, yet the borrower's repayments do not bring in a higher rate than seven or eight, and in some cases much less. It is obvious that these societies could not work out as

proposed. Another scheme professed to guarantee that the society should positively not last more than ten years; that non-borrowing members, by paying 5*s.* a month for ten years, should receive £70 at the end of that time; and that a borrower, if there be no competitors with him for the advance, should receive £30 and pay 5*s.* a month for ten years, that is to say, should pay no interest. If there was competition, the advance would be given to the bidder of the highest premium, the highest premium contemplated being £15. In this case the promise to the investing members involves the investment and reinvestment of their subscriptions at the rate of 18 per cent. per annum, yet the maximum premium would not bring in a higher rate than 8 per cent., even if the maximum premium were obtained on every advance. Here again, it is obvious that the scheme could not be worked out as proposed. Such errors as these would in time become apparent, and societies so formed would not be able to pay out their members as suggested, but would require members of both classes to continue paying their subscriptions until the funds became sufficient to pay out the full amount of the shares. Hence arose a great hindrance to the prosperity of societies; there was no certainty as to the length of time during which contributions would be required, or as to the date when the member might confidently expect to receive the full amount of his share. There was also in the later years of a society's existence some

difficulty in placing out its money to advantage, frequently met by lending the money to another society of the same series which, having been established more recently, had not arrived at the time when that difficulty would arise. These cross-transactions between societies were not without some risk.

These difficulties were avoided by the establishment of permanent societies. Though terminating societies continued to be formed in great numbers, and are still popular, all the larger societies are of the permanent class. One at Chelmsford, established in 1845; others in 1846 at Deal, Liverpool, London, Birmingham, Scarborough, Wakefield; and several of those established in 1847 in various parts of the country—Waltham Abbey, Liverpool, Birmingham, Dorchester, Canterbury, Chatham, and five in London—are still in existence. These societies have carried on for about sixty years a steady and remunerative business—not in many cases a large one, but in most cases a profitable one. The oldest of them—the Chelmsford and Essex—has only 64 members and £7,485 funds; but of that its undivided profit amounts to £2,171, and no portion of its assets consists of properties in possession or mortgages in arrear—satisfactory indications that its business has been managed with care and prudence. Each of these societies must have seen many generations of members enter and depart. It would not surprise us to learn that this small society has in its time granted

as many as 250 advances to its members, and paid out an equal number of investors. Others of the societies mentioned are much larger. One society, established in 1848, the Leeds Permanent, has assets approaching two million pounds. In this society, the contributions (according to the evidence given by its officers to the Commissioners in 1871) are 2*s.* 6*d.* a share per week, the amount of an investor's share being £120 4*s.* 8*d.*, realisable in thirteen years and seven months. The operations of the society are not extended to any speculation whatever, the whole of the funds being invested on mortgage, and the interest charged to the borrowers is low, being 4½ per cent. only. Many other societies, established in following years, approach the large figures of the Leeds society, and have carried on business for more than half a century with great success, but it will not be necessary to refer to them in detail. It may be mentioned incidentally that four of the societies established in 1847 still carry on business under the Act of 1836; all the others have been incorporated under the Act of 1874.

One of the incorporated societies established in 1850, the Bristol, West of England and South Wales, has been the subject of an interesting treatise on the building society movement by Mr. C. J. Lowe, its secretary, from which it appears that its assets at the end of its twelfth year were £26,000; twenty-fourth, £150,000; thirty-sixth, £258,000; forty-eighth, £290,000—

the surplus in the same years being £1,000, £10,000, £30,000, and £42,000, after a distribution of £38,000.

Two other societies established about the same time are worthy of note. The Birkbeck Benefit Building Society and the Second Birkbeck Benefit Building Society, also called the Birkbeck Freehold Land Society, were founded by the late Mr. Francis Ravenscroft and conducted by him with great skill and success until his death in 1902. They have developed to a greater extent than any other societies the deposit branch of building society work, and indeed much of their business is carried on under the title of the Birkbeck Bank. According to the returns for their fifty-third and fifty-second years respectively they had together 21,503 members, and their total receipts during the financial year were £18,335,267, or not far short of the amount received by all the other 2,073 building societies then in existence put together (£20,393,642). On the other hand, the amount lent on mortgage during the year by the Birkbeck was only £177,670 (or one fifty-third part of the aggregate loans of all the other societies). The balance due on mortgage securities at the end of the year was £831,220, while the other assets amounted to £10,928,259. The liabilities to the holders of shares in the two societies were £1,957,586, while the liabilities to depositors and other creditors (in the case of the first Birkbeck alone) were £10,173,415. The liabilities to

outside creditors of this one society were equal to 70 per cent. of the aggregate liabilities to creditors of all the other 2,074 societies put together. One may see from these figures what an altogether exceptional position the Birkbeck societies hold.

These societies are still, as they always have been, governed by the Act of 1836, and the power to borrow given by the rules is unlimited. While they would hold a respectable position among societies by their building society business alone, the Birkbeck ranking seventh as to the total amount of mortgages, and also as to the amounts advanced during the year, their other investments largely exceed those of any other society. It was Mr. Ravenscroft's principle to invest the whole of the deposits received, and even a portion of the members' capital, in more liquid securities than building society mortgages. He considered that by this means he could relieve depositors and members from the obligation of waiting their turn for withdrawal until mortgage repayments came in to meet their claims, and could undertake to pay out depositors on demand. This principle sustained a severe test in 1892. The panic caused by the failure of the Liberator Building Society caused a run upon the Birkbeck, but Mr. Ravenscroft was able to produce to the Bank of England so large an accumulation of what are called, in the expressive language of the Stock Exchange, "gilt-edged" investments, that he was granted by that institution a sufficient immediate advance

upon them to pay out at once all the clamorous depositors. When this was seen to be the case, the anxiety of the depositors was allayed, and new deposits were made. Mr. Ravenscroft in this fought and won a battle for building societies generally, for if he had failed, the results in loss of public confidence in building societies would have been disastrous.

It was one result of the curious state of the law to which we have adverted that there was no authentic information available as to the progress of building societies. By virtue of Acts passed after 1836, friendly and other societies were required to make annual and other periodical returns to the registrar, but those Acts did not apply to building societies, and hence building societies made no returns either to the registrar or to the barrister. It is noteworthy that societies of another class regulated by an Act passed in 1840, before the barrister had been made registrar, viz., the small Loan Societies, which are limited in their operation to loans on personal security not exceeding £15, were required to make returns to the barrister, and he was required to report them to both Houses of Parliament; yet the benefit building societies, whose dealings were so much more important, had to make no returns.

The curiosity of Parliament was awakened at last, and a return was ordered "of the number and names of benefit building societies registered

to the end of the year 1896, such return to show the number and value of the shares, together with the number of subscribing members in each society; also capital subscribed, capital paid-up, and amount of money borrowed and lent by each society, showing how secured, whether by promissory notes of the trustees, or by mortgage." The response to this order was something like that to Glendower when he called spirits from the vasty deep. The clerks of the peace obeyed the demand for the number of building societies that they had registered, upon the rules being transmitted to them as certified by the barrister, giving as nearly as could be ascertained a total of 4,059 societies in England and Wales enrolled since 1836.

This is probably short of the real number, but it is greatly in excess of the number of returns that were obtained from the societies themselves. The clerks of the peace furnished the names of the societies that they had registered, but they had no information as to how many of those societies had been dissolved. Accordingly forms of return were issued to all the societies named by the clerks of the peace, but only 1,094 came back filled up. There was no compulsion available, and many societies opposed a passive resistance to the demand for the return. It is probable that not much more than half of the then existing societies made the return. The particulars actually furnished gave a total membership of 212,093, and afforded no trustworthy indication whatever as to

the other particulars that were required to be furnished.

In January, 1870, Mr. Tidd Pratt, the first barrister and registrar, died after forty two-years of strenuous public service. The then Chancellor of the Exchequer, with whom, as principal Commissioner for the Reduction of the National Debt, the appointment of a successor rested, was the Right Hon. Robert Lowe. He was very imperfectly informed as to the great variety of the functions exercised by Mr. Pratt, and their importance in the public interest. In one respect, indeed, he overrated that importance, for he represented the certificate of Mr. Pratt as being understood by the public to be a prophylactic against the failure of societies. Daily experience might have shown him that that was an impossible position. He came to the conclusion that the functions of the barrister and registrar might well be transferred to other departments, especially to the Board of Trade.

The Bill he passed to effect his purpose met with much opposition, and the Government at last consented to refer the matter to a Royal Commission of Enquiry. Such a Commission was issued on the 29th October, 1870, directed to Sir Stafford Northcote, Sir M. E. Hicks-Beach, Sir S. H. Waterlow, and Messrs. J. Bonham-Carter, E. M. Richards, C. S. Roundell, F. T. Bircham, and W. P. Pattison, with Mr. J. M. Ludlow as secretary. They were to enquire into

and report upon the operation of the Acts relating to friendly societies and benefit building societies, and the organisation or general condition of societies established under such Acts respectively, and upon the office and duties of the Registrar of Friendly Societies. Finding that the subject of friendly societies involved detailed investigation by Assistant Commissioners, they first attacked that of benefit building societies, and published in 1871 the evidence of forty-four witnesses on that branch of their enquiry.

Meanwhile a Building Societies Protection Association had been formed, which still flourishes under the name of the Building Societies Association, and has done much good work in the interests of building societies. In 1870 it instructed the present writer to draw up a Bill for the consolidation and amendment of the law relating to building societies. That Bill was discussed during several sessions of Parliament, and at last, after much modification, passed into law as the Building Societies Act, 1874. The close attention of the Commissioners was given to this Bill, and their second report, published in 1872, contained their recommendations upon it. Several of those recommendations were not adopted by the Legislature. They considered that the form of the building society, as distinct from the joint-stock company, should be maintained, and that building societies should be registered

with the Registrar of Friendly Societies, and should have the privilege of incorporation.

With regard to the condition of building societies at the time they made their report, they had only the abortive return before referred to, and some information derived from the Building Societies Association and from individual witnesses, to work upon, but they estimated that about 2,000 societies were in existence in England and Wales, having a subscribed capital of over £9,000,000, a loan and deposit capital of over £6,000,000, over £17,000,000 total assets, having over £16,000,000 advanced on mortgage, and an income of over £11,000,000. For Scotland they estimated the number of societies at 88, the amount to credit of investing members at £823,000, the balance due by the societies on loans and deposits at £475,000, the balance due to the societies on mortgage at £1,285,923, and the subscriptions received during the financial year at £119,493. For Ireland, the number of societies 17, the amount to credit of investing members £419,984, the balance due by the societies on loans and deposits £147,139, the balance due to the societies on mortgage advances £644,820, and the subscriptions received during the year £20,230. Such had been the progress of the movement up to the year 1872, according to the best information that could then be obtained.

The Commissioners arrived at the conclusion that the development of building societies had been beneficial to the public. They had promoted

the investment on real or leasehold security, with very great safety on the whole, of several millions of money yearly; they had enormously encouraged the building of houses for the working and lower middle class. Originating with the working class, they must have had great influence in training that class to business habits.

In this, they had been the spontaneous outgrowth of a measure of encouragement and protection which had broadened out in many directions that could never have been contemplated by its framers. The Commissioners shrewdly observed that if, in comparing the movement as it then was with the statute originally devised to regulate it, they found obvious departures from the spirit of the latter, yet every step in its development had been successively sanctioned by judicial decisions. This circumstance, contrasted with the current of judicial decisions since the destruction of the ancient courts of law by the Judicature Act, leads to the reflection that more harm was done by that measure than is usually supposed. The gravely-considered decisions of those august courts, composed each of a chief judge and several other judges accustomed to act together, tended to establish freedom of contract, and to extend the privileges enjoyed by the societies. The new current of judicial opinion has gone in the other direction, and has tended to apply the doctrine of *ultra vires* in an unfortunate degree.

CHAPTER IV.

THE BUILDING SOCIETY AS NOW LEGALLY CONSTITUTED.

THE passing of the Building Societies Act of 1874, which came into operation on the 2nd November of that year, was a new departure for the societies. The late Mr. McCullagh Torrens, who had assisted in its passage through the House of Commons, described it as a charter of freedom for them, and had some justification for doing so. It wholly repealed the Act of 1836 so far as regarded future societies, and all existing societies which obtained certificates of incorporation under the new Act. Indeed, it went further, and provided that every existing society certified under the old Act should be deemed to be a society under the new Act; but this was by an inadvertent error of a noble lord in proposing an amendment, and it was set right by a short amending Act in 1875. It had, however, the effect that things done between the 2nd November, 1874, and the 22nd April, 1875, by a society which had not obtained incorporation under the new Act had to be done in compliance with its provisions. Upon receiving a certificate of incorporation, every society, old or new, became a body

corporate by its registered name, having perpetual succession, until terminated or dissolved, and a common seal. This applied to terminating as well as to permanent societies, and accorded to both classes, and not only to their members but to all persons thereafter having dealings with property in which a building society had at any time been interested, a valuable privilege; for the trouble caused to vendors and purchasers and their solicitors by the necessity of enquiry into the appointment and removal of trustees had been very great. It is true that the old Act of 1829 had vested all property of a society in the trustees for the time being without the necessity of a conveyance from a retiring trustee to his successor, but there was often difficulty in ascertaining who were the trustees for the time being. Some societies had sought to meet this by making a rule that every appointment of a trustee should be certified as an amendment of a rule, and registered with the clerk of the peace. In those cases, a search of the rolls of the quarter sessions would secure the necessary evidence, but in frequent other cases—as, for instance, where the society had ceased to exist—no trustworthy evidence was procurable. The enactment, giving every society incorporated under it power to act in its corporate name under its common seal, without the intervention of any trustee, was a real amendment of the law.

The Act further provided that all enrolments of

rules with the clerks of the peace should be taken off the files and sent to the registrar, on a proper application made for that purpose. This was necessary, as without it the registrar could have had no knowledge of what societies were in existence, and it was equally a convenience to the clerk of the peace, for he derived no fees from these enrolments. But it is a curious instance of formalism that some clerks of the peace thought that a "proper application" meant an application by the registrar in each particular case as it arose. Most clerks of the peace, however, gladly discharged themselves of the burden of these rules, and accordingly the rules and amendments of rules of more than 5,000 societies were sent to the registrar on an application by him in general terms. Many of these societies had ceased to exist. They were, however, all inserted on the registers, and remained there until the passing of the Act of 1894 enabled the registrar to ascertain the facts, and to cancel the registry of such societies as had terminated or been dissolved. About 800 of these old societies have been incorporated under the Act of 1874, and 61 still exist under the Act of 1836. The remainder (more than 4,000 in number) have come to an end.

Altogether, the Act of 1874 introduced 42 amendments into the law relating to building societies, and it will not be necessary here to discuss all of them. It defined the purpose for which societies may be established as that of

raising by the subscriptions of the members a stock or fund for making advances to members out of the funds of the society upon security of freehold, copyhold, or leasehold estate, by way of mortgage. It gave societies power to receive deposits or loans at interest from the members or other persons, or from corporate bodies, joint-stock companies, or from any terminating building society, to be applied to the purposes of the society. The total amount so received on deposit or loan, and not repaid by the society, was not at any time to exceed two-thirds of the amount for the time being secured to the society by mortgages from its members. Thus, money which a society has lent to non-members (as it can do if it has surplus funds) is not to be counted in estimating the amount the society can borrow; and since the passing of the Act of 1894 the amounts secured on properties of which the society has had to take possession, or by mortgages of which the repayments have fallen into arrear are not be counted after twelve months. In the case of a terminating society, it may borrow a sum not exceeding twelve months' subscriptions on the shares for the time being in force, if that should exceed the limit above laid down, it being thought that borrowing money is especially convenient to a terminating society in its earlier years, before it has had time to make advances to its members to which that limit would apply. By s. 43 of the Act of 1874, if any society receives loans or deposits in excess of

the limits prescribed, the directors or committee of management of such society receiving such loans or deposits on its behalf shall be personally responsible for the amount so received in excess.

Under the Act of 1836, societies had been left to draw up their rules much at their own pleasure, and we have seen that in consequence those rules were defective in some vital respects. It was, indeed, expressly provided that no society existing before 1836 should be required to alter its rules in order to obtain the benefits of that Act, so that whatever defects or inconsistencies there might be in such rules were allowed to remain.

The Act of 1874 prescribed a series of requirements under fourteen heads which the rules of every society thereafter established are to meet. The Act of 1894 substituted eight fresh requirements for two of the fourteen. This is an important matter, for nothing is more essential to a member of a building society than that he should be able to ascertain precisely from his copy of the rules what are the conditions by which he is bound. He will find in his rules:—

1. The name of the society. As the society is a corporate body and acts under its corporate name, this is essential. For any change in that name, the consent of three-fourths of the members present at a meeting called for the purpose is necessary. The last words in the name must be "building society," and the name should not contain any words implying that the society is other

than a building society. Thus the names "investment and building society," or "land and building society," are objectionable. No society may change its name to one identical with that of any other subsisting society, unless such subsisting society is in course of being terminated or dissolved and consents to the adoption of its name. Every change of name must be registered.

2. The chief office or place of meeting for the business of the society. This is essential for the identification of the society and for dealings with the public. By the Building Societies Act, 1877, a society may change its chief office without altering its rules, but the change of office must be registered.

3. The manner in which the stock or funds of the society are to be raised. This refers to the society's own funds derived from its members, not to money borrowed.

4. The terms upon which unadvanced subscription shares are to be issued, the manner in which the contributions are to be paid to the society and withdrawn by the members. Tables are to be furnished showing the amount due by the society for principal and interest separately, except in the case where such tables are not applicable to the society, as, for instance, where the society has no fixed periodical subscription. This and the two following requirements imply the possible existence of investment shares as a distinct class from borrowing shares.

5. The terms upon which paid-up shares (if any) are to be issued and withdrawn. Tables are to be furnished showing the amount due by the society for principal and interest separately, except in the case where such tables are not applicable to the society, as for instance where the society requires the member to pay down the full amount of the share, and pays him annually the interest on that amount.

6. Whether preferential shares are to be issued, and, if so, within what limits. The requirement that a limit should be fixed in every case to the issue of preferential shares first appears in the Act of 1894, but it will be observed that no limit is prescribed, as in the case of the borrowing of money. Any society may, therefore, fix its limit as high as it pleases. The issue of preferential shares was an expedient adopted when it was thought that societies had no legal power to borrow, and some doubt was cast upon the legality of it by an opinion given by Sir Roundell Palmer in 1869. The principal seat of the practice was at Newcastle-upon-Tyne, where, according to the return for the year 1894, in thirty-five societies, out of share capital amounting to £2,002,681 as much as £1,823,690, or 91 per cent., consisted of preference shares. In some of these nearly the whole of the capital was in preference shares, which in such cases would not really be preference shares at all.

7. The manner in which advances are to be

made and repaid. In a society established after the passing of the Act of 1894, no advance is to be made by ballot or dependent on any chance or lot. It had been found that the granting advances by ballot, especially in the case where the advance was without interest, had led to a method of trafficking in advances which was held to be objectionable, inasmuch as it was very little to be distinguished from a gambling transaction. In these societies, usually the subscription on an investing share was small, the attraction to the society being the gaining a chance in the ballot for advances, or appropriations, as they were called. The lucky member who had the appropriation had something he could sell, for people would readily pay a premium to obtain an advance without interest. He would transfer his share and the appropriation to the purchaser, and leave the society with the hard cash in his pocket representing their value—a distinctly unearned increment. Then came the plan of the society buying its own appropriations. To such an extent was this carried that some societies continued for several years granting nominal appropriations and buying them back without actually making a single advance.

With regard to the repayments of mortgages, the deductions (if any) for premium are to be stated in the rules, and also the conditions upon which a borrower can redeem the amount due from him before the expiration of the period for

which the advance was made. As we have seen, it is most important to the borrower that he should know exactly not only what he is to pay in the ordinary course of the gradual repayment of his advance, but also what he would have to pay if he desired at any time to terminate his engagements with the society and redeem his mortgaged property. For this purpose tables are to be given, showing the amount due from the borrower after each stipulated payment, except in the case where such tables are not applicable to the society, as, for instance, where the repayments are not by way of annuity. Wherever a borrower is required to pay back his advance by any periodical sum compounded of principal and interest, it is clear that such tables would be applicable to the society, as without them the borrower could not ascertain the amount he would have to pay without a calculation intricate enough to call for the services of a skilled actuary.

8. The manner in which losses are to be ascertained and provided for. This, again, as we have seen, is a most important requirement for the protection of the members and the equitable distribution among them of the burden when loss arises. For properly carrying out this requirement of the Act it is necessary that the directors should possess an intimate acquaintance with the properties they hold as security, so as to ascertain when that property has deteriorated and to estimate any

probable loss that may arise upon it. In a well-conducted building society losses should indeed be infrequent, for so long as the member keeps up his repayment subscriptions the margin of security is continually increasing, but it is when a member gets into pecuniary difficulty and fails to pay, and the society has to take the property into possession, that losses will be likely to arise. Hence the provision of the Act requiring a complete disclosure of the properties which are in this condition is a wise one, as it enables the members themselves to form a judgment as to how far the society to which they belong is likely to fail in fulfilling the expectations with which they joined it. It also forms a strong incentive to societies to get rid of their bad bargains.

9. The manner in which membership is to cease. For want of a clear definition of what constitutes the termination of membership, cases have arisen in which persons who had supposed they had ceased to be members have been unpleasantly reminded of their connection with a society by finding themselves liable to make further payments.

10. Whether the society intends to borrow money. In that case it might impose a limit upon its own indebtedness lower than the limit prescribed by the Act, but, of course, not higher. If the society intends to receive deposits it must stipulate for at least one month's notice before repayment or withdrawal.

11. The purposes to which the funds of the society are to be applied, and the manner in which they are to be invested. This may include:

(*a*) Real or leasehold securities;

(*b*) The public funds;

(*c*) Any Parliamentary stock or securities;

(*d*) Any stock or securities, payment of the interest of which is guaranteed by authority of Parliament;

(*e*) Where the society is a terminating one, investment with other incorporated building societies;

(*f*) Deposit in a savings bank not exceeding £300;

(*g*) Purchase of Government stock through a savings bank not exceeding £500;

(*h*) Any security in which trustees are for the time being authorised by law to invest.

12. The manner of altering and rescinding the rules of the society, and of making additional rules. The Act allows of societies making an alteration of rule in any manner their rules direct. Hence it is essential that such a provision should be made in the rules, as the statute does not prescribe any alternative method of doing it.

13. The manner of appointing, remunerating and removing the board of directors or committee of management, auditors, and other officers. Here it is to be observed that the statute does not recognise permanent officers. All are to be removable

in the manner the rules provide, and their remuneration is to be such as the rules give them, and no more. It is, however, not uncommon for the rules to give the general meetings authority to fix the remuneration of the officers.

14. The manner of calling general and special meetings of the members. What notice is to be given, and what rights of voting; whether votes may be given by proxy, and so forth.

15. Provision for an annual or more frequent audit of the accounts and inspection by the auditors of the mortgages and other securities belonging to the society. By the Act of 1874, the general statement of the funds and effects, liabilities and assets of every society, was to show the amounts due to the holders of the various classes of shares respectively (societies under the Act having authority to raise funds by the issue of shares of one or more denominations, either paid up in full or to be paid by periodical or other subscriptions, and with or without accumulating interest), the amounts due to depositors and creditors for loans, and also the balance due or outstanding on mortgage securities, not including prospective interest, and the amount invested in the funds or other securities. The requirement that prospective interest is not to be taken into account as an asset is a very important one. In the specimen we have given of an advance of £100 for five years, repayable by an annuity of £23 2*s.* —or in the aggregate £115 10*s.*—it is evident that

all the interest earned in the first year is £5, and that the remaining £10 10s. is prospective interest. The balance due to the society at the end of the first year is therefore, as we have seen, £81 18s. Some societies were, nevertheless, in the habit of crediting the whole of the interest as already earned, and in the case supposed treating the mortgage as an asset for £92 8s., being the total of the borrower's payments for the remaining four years of his mortgage. Where the mortgage was, as is usual, for a longer term than five years, the error would be much greater. For example, in a mortgage of £100 for fifteen years, repayable at the rate of £9 13s. a year, the balance due at the end of the first year would be £95 7s., but the remaining fourteen years' contributions would be £135 2s., so that the society would be taking credit for £40 2s. as realised profit by way of interest, when it had only in fact earned £5. This is so clear that the societies themselves did not contest it; yet many societies held that by calling the interest "premium," or "bonus" or "commission," they made it a different thing, and that it was prospective no longer, but they were entitled to treat it as realised.

This is obviously wrong. It can make no difference whether a society advances £100 and charges £15 10s. for interest or whether it makes an advance nominally of £115 10s. and deducts £15 10s. for premium. In both cases the member receives the same sum, £100, and repays the same

sum,—£115 10s. The transactions have precisely the same effect. The premium is really interest, and until the member has actually paid it it is prospective interest. Pressed with this inevitable conclusion, some societies have endeavoured to evade it by requiring the member to pay the premium in cash or cheque before or at the time of receiving the advance, returning it to him with the sum advanced; but it is clear that that makes no difference—the exchange of cash or cheques is a pure fiction. The amount which the member really receives from the society is the net sum after deducting the premium; that which the society really receives from the member is the annuity covenanted for in the mortgage deed, which annuity includes the sum fictitiously paid in advance, and is precisely the same annuity as that covenanted for by the member who pays no premium.

Every account and statement is required to be attested by the auditors, to whom the mortgage deeds and other securities belonging to the society are to be produced and by them inspected, and they are required to certify the number of properties to which such deeds relate and that they have personally inspected them. They are also required to certify that the accounts are correct, duly vouched, and in accordance with law; or, if in any respect they are not so, to make a special report to the society, which will then be under an obligation to amend its accounts so as to satisfy

the objection raised to them. By the Act of 1894 it is also provided that the annual return is to be made in a form to be prescribed by the Chief Registrar of Friendly Societies with the approval of the Secretary of State, and a comprehensive form has been so prescribed. In schedules to the form, each society is required to give particulars of the mortgages upon which it has advanced sums exceeding £5,000; the properties which the society has had to take into possession through default of the mortgagor, and of which it has retained possession for more than twelve months, and the mortgages on which repayments are twelve months in arrear.

With regard to the first group of transactions, they may of course be be quite legitimate and profitable, though they certainly go outside the intention of the Building Societies Act, which was broadly to provide for small mortgages. The other two cases indicate probable loss, and the requirement that they should be made public has been beneficial to the societies by inducing them to watch over their securities and to reduce the amount of properties in possession and in arrear. For the year 1896, which was the first year in which complete returns on these heads were due from all societies, the large mortgages were £2,032,930; the properties in possession, £5,772,771; the mortgages in arrear, £549,501. In 1904 the large mortgages were £2,091,292; the properties in possession, £2,443,255; the mortgages in arrear

£222,444. Thus in eight years the societies had reduced their properties in possession by 58 per cent. and their mortgages in arrear by 60 per cent. These two items had diminished from nearly 20 per cent. of the total mortgages to 5 per cent. Two-thirds of the societies included in the later return had no properties in possession or mortgages in arrear.

If the comparison be carried back to 1892, when a partial return was obtained, the improvement would appear to be even greater, for it is pretty certain that there were then not less than 7½ millions represented by properties in possession.

By the old Act of 1829 periodical statements of funds and accounts were required to be made to the members, but not to be returned to the registrar or to any other public functionary, and every such periodical statement was to be attested by two or more members of the society appointed auditors for that purpose. This had the curious consequence that unless a society had one or more public accountants among its members, it was obliged to be content with lay auditors, and it is probable that many of such auditors were very inefficient. It is now provided that one at least of the auditors of every society shall be a person carrying on publicly the business of an accountant. Although there are two important bodies to which many accountants belong, the Chartered Institute and the Incorporated Association, there is no absolute organisation of the profession of

accountants, and therefore every person who publicly carries it on is assumed to be qualified to audit the accounts of a building society.

16. Whether disputes between the society and any of its members, or any person claiming by or through any member, or under the rules, shall be settled by reference to the court, or to the registrar, or to arbitration. The court is the County Court. The arbitrators are to be not less than four in number, elected at the first general meeting of the society or in the manner its rules provide; and none of them are to be beneficially interested, directly or indirectly, in the society. When a dispute arises, three or more are to be chosen by ballot to settle it. If an arbitrator dies or refuses or neglects to act, another is to be elected by the society at a general meeting. If a person aggrieved apply to the society for arbitration, and the society do not comply within forty days, or if the arbitrators refuse or for twenty-one days neglect to make an award, the court may hear and determine the dispute. The court or registrar or arbitrators may state a case for the opinion of the Supreme Court, but are not compellable to do so. Though the arbitrators derive their authority from the society, which thus appoints its own judges, they form in general a satisfactory tribunal. If the society elects to have its disputes settled by arbitration, the number of arbitrators and mode of ballot are to be provided for in he rules.

17. Provision for the device, custody and use of the seal of the society and that it shall bear the registered name thereof. As the society is a corporate body, not acting through trustees, it requires a seal to authenticate its contracts, and as it is bound by acts done under its seal, it is essential that the seal should be identifiable by device and name as the genuine seal of the society, that it should be kept in safe custody, so that it should not be possible for anyone to use it without authority, and that its use should be strictly regulated. The best plan is to provide that the seal shall not be used without an order of the committee of management entered on their minutes, that it should be in the custody of the secretary or solicitor, and that it should be kept in a safe or other receptacle, not accessible except by means of two or more keys, kept by different officers. Such precautions as these are necessary, not only for the protection of the society, but of persons having dealings with it.

18. Provision for the custody of the mortgage deeds and other securities belonging to the society. This is again a matter of great importance. The better course appears to be that the deeds should be in the custody of the bankers, except such as for any temporary purpose are required to be in the custody of the solicitors, and that the box containing them should be one having two or more keys, so as to require the joint action of two or more officers in any dealing with its contents.

The deeds have, as we have seen, to be produced to the auditors at each periodical audit.

19. The powers and duties of the board of directors or committee of management and other officers. This is a matter requiring careful consideration. The board or committee must necessarily have all powers requisite for the direction and management of the society's affairs, and it is well that they should have freely delegated to them all powers of the society not required by the Act to be exercised by the society at a general meeting; but the supreme authority of the general meetings of the society should be maintained. In like manner, in defining the duties of the officers, care should be taken to maintain the authority of the board or committee over every officer, and to define the rare and exceptional cases in which an officer should have the right to appeal to a general meeting against any decision of the board or committee. It is too often the case in building societies, that one or more of the officers becomes the master of the society, and any tendency in this direction should be carefully guarded against in the rules. It most often happens in such cases, however, not from any defect in the rules, so much as from the supineness and weakness of the board or committee in allowing an influence to be gained over them which it was their duty to have resisted.

20. The fines and forfeitures to be imposed on members of the society. These must be strictly

defined and must be reasonable. At the same time, the courts have given a liberal construction to what is reasonable. A fine of a shilling in the pound per month on an advanced share has been held not to be unreasonable. On the other hand, heavy fines are apt to become oppressive. When a member falls into arrear upon his advanced shares, he is in general suffering from some financial difficulty or embarrassment, and to accumulate heavy fines upon him is to add to his distress by involving him in the forfeiture of his property. Fines should therefore be reasonable, and should be framed so as to compensate the society for its loss of interest and to add a slight penalty so as to check irregularity in payment. Fines on an investing share are not really necessary, except so far as the same considerations apply; and if charged at all, they should be on a lower scale than those for a borrowing share.

21. The manner in which the society shall be dissolved and whether it is terminating or permanent. If terminating, the date fixed for termination or the result to be attained at which the society shall terminate must be specified in the rules. If permanent, all that need be said is that the society shall be dissolved in one of the manners prescribed by the Acts, viz., by instrument of dissolution, by award of the registrar or by winding up by the court. It is, however, open to any society to prescribe by its rules any other method of dissolution; and some societies have

availed themselves of this provision to dispense with some of the consents necessary to an instrument of dissolution.

The statute thus lays down the lines of a comprehensive and satisfactory book of rules. In practical working, however, the rules of many societies are very badly drawn. The registrar in settling disputes has frequently had to make this observation. He found the rules of one society "hopelessly obscure and in many respects contradictory." As this society was one of a class which was acting under model rules drawn up by a professional promoter of societies, supplied in fixed type to each such society, and accepted by it without alteration, it will be seen that much mischief must have been caused by these proceedings. Between 1874 and 1894, great activity had been shown by these promoters, who induced persons ambitious to be solicitors and secretaries of societies to pay them fees for nomination to office, and who also charged the societies considerable sums for copyright of rules, supply of printed copies, forms of account and the like. Many of these societies were not called for by any real public demand, but most of them attracted a certain amount of support, enough to meet the claims of the promoters, who were thus carrying on a most profitable business. The societies themselves frequently came to grief after a brief existence.

One half of the 3,350 societies registered

during the twenty years in question belonged to this class. One such group numbered 800 societies; another exceeded 250, and another 150. Nearly one-third of them had already, in 1894, been dissolved, mostly after an existence of one, two, or three years.

A mischievous feature in the rules of many of these societies was a provision restraining the alteration of certain rules, these being usually the rules in which the officers of the society had a personal interest, the provision being intended to secure their position.

In most of the societies of this class, the appropriations were granted upon such terms as would make them a saleable property, and gave rise to the traffic in advances which caused much mischief. In one society, after three years' existence, all that it had done was to pay lump sums to three of its members for the purchase of appropriations which were never really made, and these sums were raised out of the contributions of the other members, who had to bear the loss in order that these three members might enjoy an unearned profit.

By forbidding the practice of balloting for advances, the Act of 1894 has effectually checked the formation of societies of this class, and in societies now formed all advances are to be granted by rotation or by sale. There is indeed one society promoter who has devised a method of rotation so complicated as almost to amount to an

evasion of the Act, but as it appears that it would be possible for every member to ascertain his place in that system of rotation, it seems to be within the Act. With that exception, all the schemes for granting advances without interest, and thus creating a marketable commodity in the shape of the right to an appropriation, have ceased to be organised.

Every society is bound to give to any person requiring the same a copy of its rules with a copy of the certificate of incorporation appended thereto on payment of a sum not exceeding one shilling;—and we should strongly urge upon anybody who is inclined to join a building society, that as a first step he should obtain a copy of its rules and take them away and study them. In the light of the comments we have made in this chapter, it is to be hoped that he would be able to see whether the rules are so drawn as to justify him in putting his money into the concern.

The rules of a society are by the Act made binding on its several members and officers and on all persons claiming an account of a member or under the rules, all of whom shall be deemed and taken to have full notice thereof.

Every officer of a society having the receipt or charge of any money belonging to it must, before taking upon himself the execution of his office, give security in such sum as the society requires in such manner as the society directs.

The Act provides a summary remedy by application to the County Court where an officer fails to

deliver his accounts or hand over the property of the society in his hands or custody to any person appointed by the society to receive it.

Where a society has advanced money on mortgage of copyhold property, the lords of manors sometimes refuse to admit the society as tenant, on the ground that the fees to themselves and their stewards would be affected by admitting a body having perpetual succession. In such case, the Act provides that the society may be admitted as tenant upon payment of such special fine or compensation in lieu of fines and fees as may be agreed on; or that not more than three persons appointed by the society may be admitted tenants as trustees for the society upon payment of the fines and dues payable on the admission of a single tenant.

On the death of a member or depositor having not more than £50 due to him, it may be paid without letters of administration to the person entitled under the statute of distributions. On the death of a member who is a mortgagor and leaves an infant heir, the society may sell the property and pay the surplus to the administrator as if it were personal estate.

Infants may, however, be members of a society and may give all necessary acquittances; but difficulties have arisen in societies where members obtain mortgages by ballot in dealing with the rights of infants under their rules. Two or more persons may hold shares jointly in a society, and there is therefore nothing to prevent companies or

corporations, or partnerships of any kind, holding shares in a building society, if their own regulations empower them to do so.

Finally, societies are exempt from stamp duty on all documents required or authorised by their rules, except mortgages.

CHAPTER V.

THE BUILDING SOCIETY AS A MATTER OF BUSINESS.

We shall now proceed to consider some practical matters in connection with the management of building societies. Many of them are, no doubt, equally essential to every other class of institution, or at least to every other class of provident or industrial institution, but it is not the less desirable that they should be discussed in their special aspect with regard to building societies.

The first and most essential point—upon which, it may be said, all the rest depend—is the election of the right sort of men to be the committee of management. We have already referred in strong terms—but, we think, not too strong—to the power vested by the democratic constitution of a building society in the individual member, and to his right to a voice in the election of a committee. He has, however, only one voice; the majority has the right to rule, and he may be in the minority, and may thus be overruled. He has nevertheless to bear the consequences if the wrong men are elected.

It becomes necessary, therefore, to consider what are the principles which should govern the

members of building societies in their choice of the persons who are to serve upon their committees of management or boards of direction. The two expressions are used in the Act as equivalent, and they are in fact equivalent. There is no greater power vested in the managing body when it is called a board than when it is called a committee. The expression "committee of management" is, perhaps, preferable, because it more fully implies the fact that the managing body derives its commission from, and is responsible to, the body of the members assembled in a general meeting. The derivation and responsibility are the same, in fact, when the managing body is styled a board of directors. There are no separate planks out of which that board is constructed. The use of the two phrases by different societies probably indicates a tendency in the minds of the framers of the rules towards a friendly society type on the one hand or a joint-stock company type on the other. A building society has many of the characteristics of both, and those who have in contemplation the larger form of organisation will be tempted to select the "company" form of words. It is desirable, in the first place, that the persons elected on the committee should have a substantial interest in the society. On the other hand, the qualification by way of shareholding should not be fixed so high as to limit the choice of the society to a certain number of members. A too high qualification might have the effect of establishing

a certain number of the more wealthy members permanently on the board, leaving the whole body of small shareholders practically unrepresented. A moderate qualification, such as the holding of five shares, would probably be sufficient.

The number of directors, again, should not be too large, nor too small. In a too large board, the grasp by individual members of the details of the business is weakened, and the sense of personal responsibility for the conduct of those details is proportionately diminished, while on the other hand the tendency to speechify and delay business by long and irrelevant discussion is increased. In a too small board the oligarchical element is developed, and the general body of the members kept out of that knowledge and control over the society's affairs which it is their right to possess and to exercise. Moreover, the board should, as far as practicable, contain one or more members representing every class of interest in the society. The precise number will therefore depend upon the circumstances of each society. In general, for all ordinary purposes, seven seems a good number.

The machinery for securing that fair representation on the board of different interests in the society lies in the practical common sense of the members who are the electors. It is possible that, on a mere counting of votes, one class of members might outnumber the others, and might thus have the means of returning a board wholly representing its own interests; but they would act very

unwisely in exercising the power that circumstance would give them. The supreme interest of all classes of members is the good management of the society, and that can only be secured by the selection of men who will watch over all branches of its business and hold a just balance between them.

The element of men having a practical knowledge of business should be large in every board, and a preference should be given to such as know something of the business of a surveyor, the construction of houses, the value of house property, and the principles of sanitation. On the other hand, men who seek a share in the direction in order to promote their own personal interests should be rigorously excluded. A jerry-builder is the most pernicious of all persons on the board of a building society. The practical knowledge which he possesses would be dearly purchased by the opportunity of saddling the society with bad bargains. While the main reliance of a society in these matters will be upon its professional advisers, it is well that there should be members of the board competent to verify and check the professional opinions, by means of their acquaintance with the local circumstances affecting, or likely to affect, the value of house property in the district.

The remuneration of the directors will vary according to circumstances. In some societies the directors act without remuneration. This is not, in general, desirable. It is equitable that persons whose time is valuable should be indemnified

for any of that time which they give to the service of others. If, as is usual, the remuneration is so much for every meeting at which the director is present, it affords a motive for regularity of attendance. Pay involves a sense of responsibility and a conscientious duty to earn it. Work which is not paid for is sometimes neglected. The pay should be reasonable and moderate. Except in very large societies, the margin for profit is not so great as to afford very liberal remuneration to the directors. Liberal remuneration, indeed, is not called for in the case of a building society. The director is a person elected by his brother members to look after their common interests, and the consideration of his own self-interest in the matter, and the appreciation of the compliment paid him by his election, should be enough to induce him to devote his best energies to the work without requiring more than a moderate amount of pay. It is suggested that the reasonable measure of pay would be by making a fair estimate of what, on the average, the director loses by devoting so much of his time as the work calls for to the affairs of the society instead of to his own affairs.

The same considerations that go to the selection of the members of the committee of management apply to that of the principal managing officer, whether called secretary or manager, or by any other like title. He should be a person well acquainted with the topography of the district, possessing some technical skill in estimating the

value of house property, having a thorough knowledge of the principles of account-keeping, and able to prepare the agenda and keep the minutes of the proceedings in proper form, and to conduct the correspondence of the society with courtesy and discretion. We have not unfrequently come across managers, well qualified in other respects, who seem to lose their self-control when they undertake correspondence with members, and who "give themselves away," either by blunt rudeness or lofty aloofness or fancied cleverness. This last is a very dangerous trap to an injudicious correspondent. Indeed, it is a good rule in all affairs to be very mistrustful of yourself when you think you have said or done or written something clever. The safest plan by far is to cancel it at once, and say or do or write something quite commonplace instead. The manager cannot too clearly realise to himself that each member is entitled from him to perfect frankness and sincerity, close attention, and the fullest information of which the circumstances admit. It is easy for a manager to damage the credit of his society by adopting a contrary course. Most of the smaller societies only require a portion of the time of their managing officer. Where he is engaged in professional or other work for the rest of his time, the measure of his remuneration would seem to be the same as that suggested above for the measure of the remuneration of directors. Where he is engaged in managing other building societies, great circumspection is

called for. Whether these other societies are terminating societies belonging to the same group, or whether they are wholly independent, there is the risk arising from transactions between the societies. We shall recur to this subject when we deal with the building society in peril. All that need be said here is that the directors and auditors should carefully investigate all such transactions and require the production of well-authenticated vouchers.

The professional officers—the solicitor and surveyor—do not call for prolonged discussion. In the days when the building society promoter exercised his mischievous activity it was common for him to receive a sum of money from the professional gentlemen for granting them the appointments, and to endeavour to earn it by inserting provisions in the rules which gave them a virtual fixity of tenure. Since 1894 his occupation has to a large extent gone. Any society in connection with which such a transaction has taken place is a society to be avoided. The solicitor should, of course, be one well practised in conveyancing. It is customary to embody in the rules a scale of charges so to enable a borrower to estimate the amount the transaction is likely to cost him. This scale is made moderate on the ground that all the mortgages being in common form and frequently printed, the solicitor has comparatively little work and responsibility in connection with them. With egard to this matter, the writer may perhaps be

permitted to call the attention of solicitors of building societies to the set of forms he has prepared for the *Encyclopædia of Forms and Precedents*, published by Messrs Butterworth & Co., Vol. III.

On the qualification and conscientiousness of the surveyor a great deal of the prosperity of the building society depends. In his advice to the society on the value of property and the amonnt that may properly be advanced upon it he will have in his mind the consideration that if the security should have to be realised, it would probably be at a time when the property would be in a depreciated condition. He will equally have in mind the prime object of the society, which is to assist the member to become the owner of his home, and the method of gradual repayment which continuously increases the margin of security, and will give effect to the one group of considerations without overlooking the other. In particular, he will give special attention to considerations of sanitation.

With regard to the auditors, the Act of 1894 has simplified the matter by requiring that one at least of the auditors shall be a person publicly carrying on the business of an accountant. It is the fact, however, that there are many small places where building societies exist, but where there is no person carrying on that business publicly, and in those places the societies have to seek the services of accountants at a distance from their places of meeting.

With regard to the method of keeping the accounts, the system of double-entry presents so many advantages that it should in all cases be adopted. By that method the accounts balance themselves, and a casual error is at once indicated and capable of being easily detected. A journal will be required, ruled with suitable columns indicating the amount received from each member upon each occasion of payment, and showing of what it consists, whether subscription on unadvanced shares, repayment of mortgage, fees, fines, or other payments. From this journal will be entered to each member's account in the ledger the payments which go to his credit, and to the general accounts in the ledger the payments which go to the credit of the general fund of the society. The aggregate of the payments under each head will also be carried to general accounts in the ledger, from which the annual balance sheet will be prepared. The individual accounts of the members and the general accounts of the society will then be tested and found to balance if the accounts have been accurately kept. For every ledger account representing an advance of money to a member the corresponding mortgage will have to be produced to the auditors. It is also an excellent rule that the members should be required to leave their deposit books with the auditors for comparison with the books kept by the society. In this respect a building society is much in the same position as a savings bank. The Inspection

Committee of Trustee Savings Banks arrived at the conclusion that "no audit of savings bank accounts can be considered complete unless it comprises an independent examination and comparison with deposit ledgers of depositors' pass books as presented at the bank. For this purpose the auditors should attend frequently at the savings bank and should carry out the comparison in question to such an extent as will ensure the examination of at least 10 per cent. of the pass books extant in the course of the year." For the same reason the system of the "double check" which is enforced upon savings banks by law should be adopted by building societies. Section 6 of the Trustee Savings Banks Act of 1863 requires "that not less than two persons, being either trustees, managers, or paid officers appointed for that specific purpose, be present on all occasions of public business, and be parties to every transaction of deposit and repayment, so as to form at least a double check on every such transaction with depositors." A similar arrangement would be applicable to the case of a building society, so that the person carrying out the transaction and recording it in the book of the member should not be the person entering it in the books of the society, and the one of them should keep a check upon the other. The arrangement by which this is frequently effected is that of a rota of the directors, one or more of them being required to attend at all times when money is received on

behalf of the society. Where such an arrangement exists it should be held to be binding upon the directors, and any neglect of their duty in that respect should be visited by a fine or otherwise marked in an effectual manner.

By statute every officer having receipt or charge of money is required to give security. It is curious that this is an obligation which is not imposed on the officers of friendly societies by statute, but only by their rules. One would have thought that a precaution necessary in the case of a building society would be still more necessary in the case of a friendly society. It is a general custom in friendly societies to require the officers to give security, but is not, as in the case of building societies, an obligation imposed by statute. Indeed, the two great affiliated friendly society orders have very judiciously established guarantee societies of their own on the mutual principle, thus reducing to the lowest limit the contributions of the respective officers and interesting them all in the regularity of the proceedings and the honesty of the officers of the several branches. In this they have followed the example of the post office, where a guarantee society was organised in such a manner that the whole of the losses of defaulting postmasters were defrayed out of the interest on capital, leaving the capital intact to be refunded to each officer or his representatives on leaving the service. It might be worthy of the consideration of the Building Societies Association whether

its organisation might not be made available to reduce the cost of the security required from officers of building societies by establishing a similar guarantee society on the mutual principle. The association and such a society might work very well together in urging upon building societies such measures of audit and supervision as would reduce the risks incurred to a minimum. Any representations the association might make to societies [illegible] matter would derive greater weight if they were seen to be the result of the practical experience of a society undertaking the risks than if they were merely expressions of theoretical opinion.

Though every officer in a position of trust is bound to give security, the amount of the security and the nature of it are in the discretion of the society. This does not justify the society in a practical evasion of the Act by fixing an amount or nature of security that would be obviously insufficient or untrustworthy. The security must evidently be a substantial security. With regard to its nature, the Act of 1874, following a practice that dates back to the Act of 1829, has prescribed a form of bond to be executed by the officer and his surety, conditioned that the officer is to "render a just and true account of all moneys received and paid by him and pay over all the moneys remaining in his hands, and assign and transfer or deliver all securities and effects, books, papers, and property of or belonging to the society in his hands or custody, to such person or persons

as the society shall appoint, according to the rules of the society, together with the proper or legal receipts or vouchers for such payments." The society may, however, accept instead the policy of a guarantee society or any other form of security it thinks fit; and we have known of cases where a society has accepted as security a deposit of cash, though curious questions might arise on such a deposit if it turned out to be in excess of the society's power to receive deposits.

These questions are only a part of the great problem how to secure the safety of the society as a matter of business. Another part of the same problem, on which we have already had some side lights, is that of the securities accepted for the investment of its funds. Here the statutory definition of the purpose of the society affords some guidance. It is for making advances to the members out of the funds of the society upon security of freehold, copyhold, or leasehold estate, by way of mortgage. The generality of this provision is limited by s. 13 of the Act of 1894, which provides that a society (other than one in Scotland or Ireland, which in 1894 was authorised by its rules to make advances upon second mortgage) shall not advance money on the security of any freehold, copyhold, or leasehold estate which is subject to a prior mortgage, unless the prior mortgage is in favour of the society. If a society makes an advance in contravention of this provision, the directors who authorised the advance

are jointly and severally liable for any loss that may be occasioned to the society by that advance.

In its ordinary business, therefore, as distinct from the investment of surplus funds, the society is absolutely restricted to investments on first mortgage of real or leasehold estate. It would seem from this that there is no reason why, given honest and careful management, the building society should not be absolutely the best and safest method of investment of money offered to the person of small means. Even collateral security is not admissible. This is rather an important point. We have known of cases where the directors, in granting an advance to a member, have been tempted to accept, in addition to the mortgage, some other security, such as a policy of assurance or even personal security, as a sort of extra guarantee. This is clearly not allowed by the Act. Their answer—we have got our mortgage, and there surely can be no harm in taking a collateral security in addition—is quite a fallacy. It is obvious that the collateral security would not have been offered or taken if the mortgagor and mortgagee were not both conscious that the mortgage by itself was not a sufficient security for the advance made.

We come, then, to the point that the directors are responsible, as trustees for their brother members, for seeing that adequate security by way of mortgage, and by that way alone, is obtained for every advance they make. In this

respect, many important practical considerations arise. The very existence of a building society as a mode of raising capital for investment in house building may have a tendency to promote speculation in house building, to overstock the market with new houses, and to depreciate house property generally in the neighbourhood. Where advances are made to speculative builders, this has not unfrequently been the result. The reader may probably, in his wanderings here and there, have come across some dreary range of uninhabited houses, possibly including a few unfinished carcasses of houses, and have learned upon enquiry that they are monuments of the misdirected energy of some builder who, having no capital to speak of of his own, was financed by some building society, in the hope that as each house was finished it would be let and rent come in to enable him to meet his obligations.

The circumstances of building societies vary in different localities. In a small progressive town, where every new house adds to the prosperity of the place, where the industries are expanding and trade is thriving, the building society may be a valuable element in advancing the general welfare. By affording a means of investment for the savings of the tradesman and the workman, and by helping to fill the outskirts of the town with improved and comfortable dwellings, suitable to the requirements of the owners and equipped with modern sanitary appliances, they apply the thrift of the

people to the best possible purpose. On the other hand, in the suburbs of a large town, especially where (as in London) the centrifugal forces are constantly at work, drawing the wealthier inhabitants further from the centre, the societies should be prepared to meet with cases of depreciation in value of house property, as each stratum of society finds the dwellings that originally sufficed for it to become inadequate to its requirements, and leaves them to be occupied by an inferior class of tenant. This has to be considered by the directors in fixing the reserve margin of value they consider necessary for safety.

In any case, however, a well-managed building society, conducted as a matter of business by men who understand the business, may be of great advantage to the community in which it is established. When the advances are to be made on buildings in course of erection, the directors will, in the interest of their constituents, see that the plans and specifications for the building are such that the house, when finished, will be a good security for the society's money, and with this in view will stipulate for conditions that will raise the character of the neighbourhood rather than lower it. When the advance applied for is on security of a building already in existence, they will not grant it unless they are satisfied that no structural defects exist that will tend to defeat the society's security. In this manner they apply the capital they create to the improvement of the neighbourhood,

and they add to the number of people who have a direct interest in promoting that object. An enlightened self-interest tends to the advancement of the public welfare, and individualist enterprise adds to social wealth.

It is essential, as a "matter of business," that a society should know on what arithmetical basis its plans are laid, what rate of interest the borrowers are to pay, and what rate of interest the lenders, that is, the investing members, expect to realise. We have seen that, in the early days of building societies, borrowers were charged interest at heavy rates—6 or 7 per cent., or more. The pressure of competition, and the anxiety to get business, have led in later years to the reduction of the rate of interest to 5 and in some cases to 4 per cent. Indeed, the two largest existing building societies under the Act of 1874 adopt the low rate of 4 per cent. A few arithmetical examples may show the effect of these different rates of interest. The tables on the next page give the monthly and annual repayments for an advance of £100 for various terms of years at 4, 5, 6 and 7 per cent., giving the benefit of every fraction of a penny in monthly repayments, and of a shilling in yearly repayments, to the society.

These tables serve to indicate the advantage a low rate of interest offers to the borrower. They also enable a borrower to ascertain what is the actual rate of interest he is paying. Where advances are granted by sale, this is necessary to

MONTHLY.

Term of Years.	4 per Cent.			5 per Cent.			6 per Cent.			7 per Cent.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3	3	0	1	3	1	3	3	2	5	3	3	7
4	2	5	11	2	7	0	2	8	2	2	9	3
5	1	17	6	1	18	6	1	19	7	2	0	8
6	1	11	10	1	12	10	1	13	11	1	15	0
7	1	7	10	1	8	10	1	9	11	1	11	0
8	1	4	9	1	5	10	1	6	10	1	7	11
9	1	2	5	1	3	6	1	4	6	1	5	7
[illegible]	1	0	7	1	1	7	1	2	8	1	3	9
[illegible]er 10	0	19	1	1	0	1	1	1	2	1	2	3
[illegible]dd[illegible]	0	17	10	0	18	10	0	19	11	1	1	0
[illegible]	0	16	9	0	17	9	0	18	10	1	0	0
an [illegible]	0	15	10	0	16	10	0	18	0	0	19	1
[illegible]	0	15	0	0	16	1	0	17	2	0	18	4
[illegible]	0	14	4	0	15	5	0	16	6	0	17	8
17	0	13	9	0	14	10	0	15	11	0	17	1
18	0	13	2	0	14	3	0	15	5	0	16	7
19	0	12	9	0	13	10	0	15	0	0	16	2
20	0	12	4	0	13	5	0	14	7	0	15	9

YEARLY.

Term of Years.	4 per Cent.			5 per Cent.			6 per Cent.			7 per Cent.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3	36	1	0	36	15	0	37	9	0	38	3	0
4	27	11	0	28	4	0	28	18	0	29	11	0
5	22	10	0	23	2	0	23	15	0	24	8	0
6	19	2	0	19	14	0	20	7	0	21	0	0
7	16	14	0	17	6	0	17	19	0	18	12	0
8	14	17	0	15	10	0	16	2	0	16	15	0
9	13	9	0	14	2	0	14	14	0	15	7	0
10	12	7	0	12	19	0	13	12	0	14	5	0
11	11	9	0	12	1	0	12	14	0	13	7	0
12	10	14	0	11	6	0	11	19	0	12	12	0
13	10	1	0	10	13	0	11	6	0	12	0	0
14	9	10	0	10	[illegible]	0	10	16	0	11	9	0
15	9	0	0	9	13	0	10	6	0	11	[illegible]	0
16	8	12	0	9	5	0	9	18	0	10	12	0
17	8	5	0	8	18	0	9	11	0	10	5	0
18	7	18	0	8	11	0	9	5	0	9	19	0
19	7	13	0	8	6	0	9	0	0	9	14	0
20	7	8	0	8	1	0	8	15	0	9	9	0

be known. For example, if a member wishes to obtain an advance of £100 for 10 years by sale without interest, he can afford to offer £29 10s. for it, as that is the amount of interest at 5 per cent. that he would have to pay; that is to say, the nominal amount advanced to him would be £129 10s., the real cash advanced would be £100, and the repayments would be, as in the table, £12 19s. per year. By means of a debtor and creditor account, the tables also serve to show the balance at any time due on an advance. For example, suppose £100 advanced for 13 years by repayments of 7 per cent., equal to £1 per month, the account will stand thus:—

		£	s.	d.
Debtor.	Advance	100	0	0
	Interest for one year ...	7	0	0
		107	0	0
Creditor.	Repayments in first year	12	0	0
	Balance due at end of first year	95	0	0
Debtor.	Interest on £95 for one year at 7 per cent. ...	6	13	0
		101	13	0
Creditor.	Repayments in second year	12	0	0
	Balance due at end of second year ...	89	13	0
Debtor.	Interest on £89 13s. for one year at 7 per cent. ...	6	6	0
		95	19	0
Creditor.	Repayments in third year	12	0	0
	Balance due at end of third year	83	19	0

and so on. On the same principle the tables necessary to show the amount due from the borrower after each stipulated payment could be constructed. For this purpose it would be well to avoid making a long series of tables, by selecting only a few of the terms of years. For example, the very short terms of years are rarely wanted, as the necessary repayment contribution is heavy. Again, advances for long terms of years should only be granted in cases where the security is exceptionally good. The terms of years from 10 and 14 would probably be those most generally selected. Where the table is used to show the amount required to redeem a mortgage, any extra charge imposed by the rules would have to be shown.

With regard to the investing shareholders, the table on next page shows the amount of a contribution of £1 per month, accumulated at interest of 3, 4, 5, and 6 per cent., or in other words the realised share that would be obtained by that contribution at those rates of interest respectively.

These tables are calculated upon the assumption that the interest becomes due and is realised at the end of each year. In a well-conducted building society, having ample funds at its disposal, the interest will in fact be realised at more frequent intervals, and will approach a continuous realisation of interest; for as fast as the repayments come in, they will be applied to

At end of	3 per Cent.			4 per Cent.			5 per Cent.			6 per Cent.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3 years.	37	1	0	37	9	0	37	16	0	38	4	0
4 ,,	50	4	0	50	19	0	51	14	0	52	9	0
5 ,,	63	14	0	64	19	0	66	6	0	67	12	0
6 ,,	77	12	0	79	11	0	81	12	0	83	14	0
7 ,,	91	18	0	94	15	0	97	14	0	100	14	0
8 ,,	106	14	0	110	11	0	114	11	0	118	15	0
9 ,,	121	18	0	126	19	0	132	6	0	137	17	0
10 ,,	137	11	0	144	1	0	150	18	0	158	3	0
11 ,,	153	13	0	161	16	0	170	9	0	179	13	0
12 ,,	170	6	0	180	6	0	191	0	0	202	8	0
13 ,,	187	8	0	199	10	0	212	11	0	226	11	
14 ,,	205	0	0	219	10	0	235	2	0	252	3	
15 ,,	223	1	0	240	5	0	258	18	0	279	6	
16 ,,	241	17	0	261	17	0	283	17	0	308	1	0
17 ,,	261	2	0	284	5	0	310	1	0	338	11	0
18 ,,	280	19	0	307	14	0	337	11	0	370	17	0
19 ,,	301	1	0	332	1	0	366	9	0	405	2	0
20 ,,	322	8	0	357	6	0	396	15	0	441	8	0

making fresh loans. It is convenient, however, as a matter of practical business, not to estimate all sources of profit at their highest. Any gain made by prompt reinvestment will appear in the balance sheet as undivided profit, and will be available in due course (after proper reserve funds have been set aside) to be divided among the members as bonus, in addition to their yearly interest. The idea of absolutely momentaneous realisation of interest is of course merely theoretical, but it may interest those who are curious in such matters to know that a nominal rate of 3 per cent. per annum if realised momentaneously would really be equivalent to £3 0*s.* 11*d.* per cent. per annum; while a nominal rate of 7 per cent. per annum, if

realised momentaneously, would be equal to £7 5*s.* 0¼*d.* per cent. per annum. For this and many other interesting points relating to the operation of compound interest, reference may be made to Mr. Scratchley's "Treatise on Building Societies," already quoted.

The foregoing table serves to indicate the power of compound interest, by which a payment of £1 per month for 20 years, or £240 in all, earns an additional £82 8*s.* if improved at 3 per cent., but an additional £201 8*s.* if improved at 6 per cent. It also enables an investor to ascertain what ought to be payable to him upon withdrawal. By proportion, it applies to any rate of monthly subscriptions, whether more or less than £1. From it may be constructed the necessary tables showing the amounts due by the society to each member for principal and interest separately. It may also be used for the purpose of making out the annual statement of liabilities, bearing in mind that the advantage of fractions of a shilling is given to the society in the investor's table, as it was also in the borrowers' tables.

Each year, then, the statement of assets being deduced from the tables applicable to borrowers, and the statement of liabilities from that applicable to investing members, a balance sheet will be struck which will show, in the generality of cases, a surplus of undivided profit, arising from the realisation of interest at more frequent intervals than once a year, the use of the money of depositors

at a less rate of interest than that earned from the borrowers, and from economy in the management. In order that this latter statement may enter into the profit-making functions of the society, it is necessary that a margin of interest should be reserved between that charged to the borrowers and that allowed to the investing members. With this in view, the tables for borrowers show rates of 4, 5, 6 and 7 per cent., and those for investors show rates of 3, 4, 5 and 6 per cent., indicating that a margin of 1 per cent. should always be reserved between them. It is a good test of economical management to see how much can be saved out of that margin of 1 per cent. A society that was able to add any considerable portion of it to its profit balances might certainly claim credit for rigid economy.

The balance of unappropriated profit having been ascertained, the question will arise—how much of it should be divided among the members, and how much reserved to meet future contingencies. This is a question of degree, depending largely upon the nature of the business. The difficulty it presents arises from the temporary nature of the membership. If A. B. is to cease to be a member in five years' time, it is clear that he ought to be allowed to take out with him his fair and full share of all the profit that has by that time been actually earned on the business transacted while he was a member. On the other hand, it is equally clear that he ought not to be allowed to

burden the remaining members with more than their fair and full share of any loss that may thereafter arise upon the transactions which were actually effected during the term of his membership. In the absence of any special circumstances leading to expectations of future loss, it would seem that the equities of the case would be met by setting aside a moderate and reasonable sum, arrived at by estimating a small percentage of the balances due on mortgage securities as covering the risk of possible future loss.

CHAPTER VI.

THE BUILDING SOCIETY IN PERIL.

WHEN the Building Societies Bill was under discussion in the year 1892, a return was ordered on the motion of Mr. Gerald Balfour of the building societies incorporated under the Act of 1874, which had terminated or been dissolved or otherwise ceased to exist. It was found that out of the 3,723 societies, old and new, which had up to that date been incorporated, 1,237, or about one-third, had already ceased to exist. From this figure should be deducted those terminating societies which had run their course, and arrived at their termination in the normal manner; and also a certain number of old societies which availed themselves of the privilege of incorporation under the Act of 1874, merely in order to obtain the benefit of the method of dissolution provided for by that Act. As many as 466 societies had not gone through any formal dissolution whatever, but had merely ceased to occupy their registered offices or dropped out of existence. It is probable that many of these had failed altogether to do any business or had done so little that no one cared to trouble about legally dissolving them.

Upon considering this return, and taking all

favourable possibilities into account, we arrived at the conclusion that it told a sad tale of heavy losses inflicted upon the members by mismanagement and by fraud. In many cases, the latest annual returns of the societies had disclosed admitted deficiencies, and it is probable that in the course of the process of dissolution those deficiencies would be found to be much greater. In many cases, also, the societies had made default in furnishing the annual return until it had been enforced by prosecution or threat of prosecution; and in not a few this had happened several years in succession. The inference that default in making a return is a sure sign of something wrong in the society's affairs is confirmed by the fact that a very large proportion of the whole number of societies which had been reported to the Secretary of State as guilty of such default is contained in this list of dissolved societies. About 300 others were dissolved during the years 1892, 1893, and 1894.

Since 1894, more complete particulars of the results of dissolution have been made available. In the ten years 1895—1904, out of 1,037 societies dissolved, 927 have furnished a final return in the prescribed form, giving a summary of the proceedings in the dissolution. According to these returns, there was due to the shareholders £3,640,774, and they had received £3,216,041, a loss of £424,733, or 2*s.* 4*d.* in the £. There was due to depositors and other creditors £602,800,

but they had received only £505,299, a loss of £97,501, which is equivalent to 3*s.* 3*d.* in the £. These figures are not, however, to be relied on, as the various societies made their returns upon different principles, and 70 per cent. of them were terminating societies. If individual cases were enquired into, it would probably be found that the loss experienced by the shareholders was much greater, as societies in some cases returned an amount paid to shareholders in excess of that due to them, arising possibly from interest accrued during the course of the dissolution, possibly from profit in the case of the dissolution of a solvent society.

Of the assets, which at the commencement of the dissolutions were estimated at £4,149,412, £3,949,664 were realised—a loss of a little less than 5 per cent. The expenses of the dissolutions were £228,024, or less than 6 per cent. of the amount realised. This is certainly evidence that the cheap and speedy methods of dissolution provided for by the Act of 1874 have been successful; but on this as on all other branches of the question, the general averages are not a trustworthy guide to the special facts of the different cases.

The cases where depositors and other creditors have suffered loss appear to range themselves under two heads:—First, those where there was nothing left for anybody; second, those where from special circumstances the shareholders and

depositors agreed to share the loss. Under the first head comes the case of the Liberator Building Society, which, however, is not included in the figures just given, as it was in course of winding up by the County Court when the Act of 1894 was passed, and was one of those societies whose winding up was transferred to the High Court by virtue of section 8 of that Act.

By an excellent provision of the Act of 1894 (s. 5), when a society has, for two months after notice, failed to make any return required by the Building Societies Acts, the registrar, with the consent of the Secretary of State, may appoint an inspector to examine into and report on the affairs of the society, with power to require the production of all or any of the books, accounts, securities, and documents of the society, and to examine on oath its officers, members, agents, and servants in relation to its business. In 1897 an inspector was appointed under this section to enquire into a group of five societies under the same management, all of which were in process of dissolution. The principal manager refused to attend the inspection, and summonses were taken out against him in respect of three of the five societies for that offence, and for not making the annual returns. The magistrate fined him £10 on each summons and £5 5*s*. costs. Notwithstanding the difficulties thus placed in the way of obtaining the information, the inspector was able to ascertain and reported a state of things which showed that the

manager had been guilty of still more grave offences, and the papers were sent to the Director of Public Prosecutions, who instituted further proceedings, under which the offender was found guilty and sentenced to five years' penal servitude.

The results of the dissolutions of two of these societies were as follows:—

TOWN AND COUNTY SOCIETY.

Due to shareholders	...	£9,828.	Paid, *nil.*
Due to depositors	...	£10,612.	Paid, £2,966.
Loss ...	...	£17,474.	

CARLTON, No. 2.

Due to shareholders	...	£13,704.	Paid, *nil.*
Due to depositors	...	£9,969.	Paid, *nil.*
Loss ...	...	£23,673.	

No information could be obtained as to the results of the dissolutions of the other three, but it is not likely that they were any more favourable. In each case trustees had been appointed to conduct the dissolution, but they had left the matter entirely in the hands of the manager, and the statements furnished by them to the inspector were of little value. In this respect, the failure of those societies is typical of many such failures. The directors and trustees place confidence in one man, and the end of it is ruin to him and heavy loss to them.

Under the second head, comes the case of the Portsea Island Building Society. It was established in 1845, and incorporated in 1877. On three occasions, the registrar called the attention

of the society to apparent irregularities in its mode of business. Its audit was very unsatisfactory. It became insolvent in 1891, when the accountants called in found a deficiency of £242,809 instead of a profit of £5,526. The liabilities to shareholders were £225,864, and to depositors £328,980. Further loss arose on the realisation of the securities. In this case, also, the manager responsible for the grievous loss was prosecuted and convicted. A private Act of Parliament was obtained, under which Lord Macnaghten was appointed arbitrator, with power summarily to determine all questions as to the claims of members and depositors, with a view to an equal distribution of the remaining assets among all classes of claimants alike, and to the final settlement thereby of all questions as between members and depositors, whether the society had exceeded its statutory powers of borrowing, and with what consequences. This was stated to be the only means of saving something out of the wreck for the benefit of those concerned, who assented to it almost unanimously.

A similar settlement was arrived at by consent (as a compromise to terminate costly litigation, we think) in the case of a society at Manchester, owing £45,748 to shareholders, and £190,369 to depositors. About one-third of its capital having been lost, £30,789 was paid to the shareholders, and £128,206 to the depositors. Other evidence that failure to make returns is a sure sign that

there is something wrong is given by two societies in Wales, which had to be wound up, having sustained serious losses. The secretary, who was the same for both societies, had on two occasions been summoned by the registrar and fined for not making returns; and had never made a return except under pressure of threats of proceedings.

The same remark applies to the secretary of a number of Starr-Bowkett societies in Staffordshire, who was convicted of defrauding them. Inasmuch as every shareholder, depositor, and creditor for loans is entitled to a copy of the returns made to the registrar, it would be well if such copies were applied for by all those who are entitled to have them.

It will be noticed that in many of these cases of disaster to societies, more than one society has been involved. The practice of forming a series of societies under the same manager, commencing a new one as soon as the share list of the former one is full, has evidently danger of its own. Though natural in the case of terminating societies, it appears to have been followed in the case of permanent societies, where there does not appear to be the same reason for it. When the societies have different boards of directors and enter into complicated transactions with each other, which the common manager may not fully or accurately make known to both, it is evident that he has the matter very much in his own

hands. A striking illustration of this is given in the report for 1886 of Mr. Ludlow, the Chief Registrar. A group of societies in Sunderland had existed for many years, numbered from the 1st to the 37th. Twenty-seven of these were established before the passing of the Act of 1874, and it was said that all these had terminated successfully. In rapid succession ten more were established and incorporated under that Act.

These ten societies had to make returns; and when those returns came to be looked at by the registrar, it appeared that some of the societies took credit for large sums advanced to the others, but no society debited itself with amounts borrowed from others. The explanation given by the manager was that the amounts borrowed were entered as paid-up shares. The ten societies were supposed to be prosperous; the annual returns of every one of them showed a balance of undivided profit, very neatly graduated according to the age of the society; and then the manager died. The societies called in professional accountants to make that independent investigation which ought to have been made long before, and the results were startling. The 28th society, which showed a profit of £4,038 for its ninth year, was not, it is true, insolvent, but its surplus was £784 only. The 29th society showed a profit, also for its ninth year, of £3,023, but it was really in a deficiency of £3,760. The 30th society, for its eighth year, showed a profit of £2,520; its surplus was really

£401 only. All the other societies were insolvent, as shown by the following statement:—

		Profit shown.	Real deficiency.
		£	£
31st society.	7th year ...	1,613 ...	1,155
32nd „	5th „ ...	1,240 ...	3,145
33rd „	4th „ ...	1,011 ...	2,250
34th „	3rd „ ...	730 ...	3,983
35th „	2nd „ ...	340 ...	7,245
36th „	1st „ ...	243 ...	14,736
37th „	Not one year in existence...	... ...	1,368

These figures indicate that, by some means, the burden of the bad business undertaken by this group of societies had been contrived to be thrown upon the later ones, so that the earlier societies were enabled to terminate with an appearance of prosperity; while a society only just started was saddled with a deficiency of £1,368, and one only a year in existence had made losses amounting to £14,736. As there was no charge against the deceased manager that he had embezzled the funds, it is clear from these figures that mere mismanagement, accompanied with manipulation of the accounts, may be as disastrous as dishonesty.

It is not necessary to go in detail into the various cases of fraud, though many have been recorded in the annual reports of the registrars. The methods adopted in general have been those of simple dishonesty, coupled with manipulation of the accounts. They present no features specially

adapted to the working of building societies, and the remedy for them, or rather the means of preventing them, lies in the more efficient audit of the accounts and the more business-like and capable supervision on the part of the directors over the intromissions of their officers. A secretary receives from a borrower a lump sum down in redemption of a mortgage, and contrives that he may appropriate it to his own purposes without immediate risk of detection. Another fabricates a claim for withdrawal from an imaginary shareholder, and obtains a cheque for it without due enquiry. By such and the like simple means have most building society frauds been effected. The first misappropriation successfully made, the offender is compelled to create a system of fraudulent entries in the books that shall cover it and enable him to make fresh depredations.

So long as auditors can be found who, instead of acting upon the precise directions of the Act of Parliament, are willing to accept verbal explanations from the manager, and neglect precise verification of every item in the accounts, and so long as directors can be found who are willing to sign cheques and seal documents on a mere verbal request from their officer, without precise verification of the purpose and regularity of such signing and sealing, so long will managers become fraudulent and continue their career of fraud with impunity. It is opportunity that makes the thief.

Next to the peril arising from absolute fraud is

that arising from depreciation of securities. This may be due to various causes. Some societies have indulged in unwise speculation. A society in Sheffield lent large sums on the security of a quarry. The repayments fell into arrear, and they had to take the security into possession. The result was, they found themselves saddled with the obligation of finding more and more money to carry on and finance this quarry till their resources were exhausted, and they had to realise at heavy loss.

It may be due also, and that even in a case where the society has been honestly (if not too wisely) managed, to a real depreciation in the value of house property in the district where the society carries on its operations, and to want of means on the part of the borrowing members to keep up the regularity of their repayments, ending in the society being compelled to take into possession a large number of mortgaged properties, certain to produce loss on realisation. In such cases much may be done by patience and forbearance on the part of the members to remedy the condition of affairs, and the judicial decisions by which a society in difficulties has been enabled to make amendments in its rules binding upon a dissentient minority of the members have had a beneficial effect. In some instances a society has been thus enabled to survive its difficulties and to continue its existence, and again become a profitable concern. In others it has been enabled to

retrieve its position and pay twenty shillings in the pound when ultimately terminated. Where the directors possess and deserve the confidence of the shareholders, a case must be bad indeed to be altogether hopeless.

The typical case of really hopeless insolvency is the Liberator. It conducted for some years a regular building society business; and it is curious to observe that its first return under the Act of 1874 was objected to by the registrar as containing prospective interest, contrary to that Act. The society undertook that future returns should not be open to that objection; and the subsequent returns were accordingly, on the face of them, quite in order; but meanwhile a great change had passed over the real working of the society. The return for the society's 23rd year ending 31st December, 1891, showed 11,825 members, an income of £1,251,053, and shares amounting to £1,661,065 (of which £1,659,240 were paid up), deposits £1,730,741, and a balance of unappropriated profit of £98,161. The assets were stated as £3,423,074, "balance due on mortgage securities, not including prospective interest," and £66,893 "amount invested in other securities and cash." The facts were that the society had long discontinued any legitimate building society business, and that its alleged assets consisted of claims upon certain companies under the same management, which turned out to be valueless. This terrible calamity greatly affected

the credit of building societies. In 1890 their funds amounted to £50,778,797; by 1893 they had fallen to £42,683,271—a loss of 16 per cent. in three years. It was not rightly regarded, however, as affecting their credit, for the Liberator had ceased to do genuine building society business. This the public did not know, and building societies suffered accordingly. As it was the cause of the passing of the Act of 1894, which has restored them to public favour, it has been good for them in the long run.

A third source of peril to building societies has been their establishment in places where there was no real public demand for them, but where a sufficient number of persons could be induced to subscribe to cover the fees and other claims of the professional building society promoter. As his occupation has almost entirely gone since the Act of 1894 was passed, it is not now necessary to dwell upon this, though it was a real evil while it lasted, nearly 1,000 societies having been created to which this description applies. The societies of this class were mainly developments of the Starr-Bowkett type—a kind of society invented by Dr. Bowkett and improved by Mr. Starr, of which more than a thousand were established. The principal features of these societies were that the investing shares were of small amount, subscribed by a small weekly contribution, entitling the holder to an appropriation of large amount; that the appropriations were made by ballot, free of

interest—this was afterwards modified, in some cases, to alternate ballot and sale; that after the completion of the repayments, the borrower was to pay up within a brief period the amount of his investing share, which he would be entitled to receive back at the termination of the society; and that the society should terminate when each member had had his appropriation. It is claimed for this system that it is especially beneficial to the poorer members who, if they are fortunate in the ballot, obtain an advance without interest and therefore on easier terms than they can obtain it through any other source. It is also common among these societies to lend up to the full commercial value of the property.

It must certainly be conceded that many men have thus obtained their houses on very easy conditions, but this, which is the one respect in which these societies can claim to be successful, is accompanied with so many drawbacks that we cannot bring ourselves to regret that the establishment of societies on these principles has been checked. There are still, however, 362 out of the 1,017 existing, and it is therefore worth while to give some consideration to their methods. Four (the 15th, 53rd, 70th and 95th) have reached their fortieth year. The first-named has 229 members and is still making advances, having granted £900 during the last financial year. It is to be presumed, therefore, that it will still be some eight or ten years before it can terminate and the

members receive the amount of their slow accumulations, which are stated at £5,367, with a profit of £250—an average of over £24 per member. The second is described as an "Improved Starr-Bowkett Ballot and Sale," has eleven members, entitled to £354, to which £41 has been added as profit. The balance due on mortgage securities is £301, and if no more appropriations are granted, it may be presumed that in a few years this will be paid off and the society will terminate. The third is in a similar situation, having twenty-seven members entitled to £1,026 with £123 profit, and having £807 due on mortgage. In the fourth, the figures are: Twenty-one members, £786 subscriptions, £273 profits, and £985 mortgages. This society has registered an instrument of dissolution. An "Improved" Bowkett at the end of its thirty-sixth year had twenty-two members, £3,906 subscriptions, £85 profit, and £2,952 due on mortgages. This society had £1,039 "other assets," which may indicate that it is preparing for its termination. It may be reasonably inferred from these figures that the Starr-Bowkett Society cannot offer much attraction to the mere investor; that is, to the man who is not successful in the ballot, or, where the system has been modified to ballot and sale, has not cared to tender a sufficient consideration for his appropriation to meet the competition of other members. Even in that case, his profits are small.

We now turn to the last established, the 1,017th, which has completed its tenth year. It

has 155 members, has advanced £825 during the year out of an income of £1,509, has accumulated £2,683 out of the subscriptions of members and £784 out of profits, and its mortgage balances are £3,472. It will thus be seen that its progress towards the end of making an appropriation to every member has been but slow. Let us take now a group of societies midway between the earlier and the later, which have completed their twenty-fifth year, the 243rd, 245th, 247th, and 250th. The first has eighty members, advanced during the year £630 out of an income of £1,341, has accumulated £3,719 in subscriptions and £789 in profit, and has £5,393 due on mortgage securities, having raised £916 by borrowing. The second has terminated with £4,892 subscriptions and £740 profit. The third has seventy-nine members, has advanced during the year £1,500, has accumulated £4,718 in subscriptions and £1,006 in profit, and its mortgage balances are £5,636. The fourth credits its thirty-two members with £1,652 for subscriptions and £585 for profit, and has commenced its dissolution. These societies are established in London, Bedford, Kent and Cheshire respectively. Their estimates of profit are not necessarily to be relied on, as may be readily ascertained by inspection of the returns relating to termination of dissolution.

The general impression derived from all these figures is that the societies of this class are not favourable to investors; but the ideal building

Society is one that is beneficial to borrowers and investors alike. What, then, is the attraction that has induced members to join? It is evidently the prospect of being successful in the ballot for an appropriation; in other words, the spirit of speculation relying on the chances of success. To this, standing by itself, there might not be so much to object, if each member himself used the appropriation when he got it; but when it was found that, instead of using it, he could sell it, and when the further step was taken by the societies of themselves buying appropriations and selling them to the highest bidder, a mischievous sort of gambling took place, which the Legislature has done well to prohibit.

Another peril to building societies is pointed at by the 23rd section of the Act of 1894, which enacts that no director, secretary, surveyor, solicitor, or other officer of a society shall, in addition to the remuneration prescribed or authorised by the rules of the society, receive from any other person any gift, bonus, commission, or benefit for or in connection with any loan made by the society; and that any person paying or accepting any such gift, bonus, commission or benefit shall be liable on summary conviction to a fine not exceeding £50, and in default of payment to be imprisoned with or without hard labour for any time not exceeding six months; and that the person receiving any such gift, bonus, commission, or benefit shall, as and when directed by the court

by whom he is convicted, pay over to the society the amount or value of such gift, bonus, commission, or benefit, and in default of such payment shall be liable to be imprisoned with or without hard labour for any time not exceeding six months. The writer himself, in giving evidence before the Select Committee of the House of Commons on the Bill, strongly resisted this clause. It appeared to him that for an officer of a building society to take a bribe is not better or worse than for an officer of any other society or for any other person to take a bribe; and that therefore, if the Legislature thought fit to attach penal consequences to the offence or the crime of taking a bribe, it should do so by a general enactment applicable to the case of every person who commits that offence or crime, whether he is an officer of a building society or not. It appeared to the writer to be an altogether vicious method of legislation to say that that should be a criminal act on the part of an officer of a building society which the Legislature had not determined to be a criminal act on the part of any other person; and that while he would strongly support any general statute attaching the character of criminality to all such acts, he could not approve of a special statute attaching it to the act when committed against the interests of a particular class. These arguments, however, did not impress the Committee or the Legislature, and the clause passed into law: it is to be presumed upon some impression that building societies

are specially exposed to this kind of fraud and require special protection against it. We are not aware of any evidence that that is so; and, to speak frankly, we do not believe that the officers of building societies generally are more liable than any other people to be tempted or to succumb to the temptation.

There is strong evidence, however, in the cases before the law courts and before the registrar as arbitrator, of another peril of the like kind to which the provisions of the 23rd section do not apply. Societies of a certain class provide considerable restraints upon withdrawal, upon the ground that they require all the funds they can raise for the purpose of making advances, and on the other hand they provide that a member who has received an advance may apply any unadvanced shares belonging to him to the repayment of the advance. Under these provisions, members desirous to withdraw have been approached by members who have received advances with offers of the purchase of their interest in the society at a heavy discount. Where they are hopeless to obtain the withdrawal of their shares for a long time and are doubtful of the solvency of the society, they will be willing to take almost anything for the sake of getting immediate cash. Accordingly, the borrower buys the share at a heavy discount and immediately transfers the full amount as cash paid to the credit of his advance. Where the borrower has an official position, as a director or secretary

of the society, still more if he is also a trustee for the purpose of its dissolution, he is in a position to carry on transactions of this kind to a considerable extent; and thus to obtain for himself preferential payment in full of shares which he has acquired at a much lower price, and to leave to the other shareholders only what may remain after he has been satisfied. By astute proceedings of this kind such a manager or trustee has contrived to secure for himself all the profits of a society and to leave to the other members all the losses. The details of some curious cases of this kind may be found in the registrar's reports. They show the perils that attend all contrivances to depart from the ordinary type of building society, under which the investing member knows exactly what he has to expect and the borrowing member exactly what he has to pay, and the principle of action is the common advantage of all, and not the special advantage of one class of the members as against another.

Without, therefore, suggesting that building societies are more in peril than other sorts of societies or exposed to materially different sources of peril, we have certainly established the necessity for unceasing vigilance on the part of their members. Their perils may be summed up briefly as those arising from fraud and embezzlement; from injudicious investment; from bribery; and from contrivances to make profit for some of the body at the expense of others: or they may be still more

briefly summed up as the perils of bad rules and the perils of bad management. It may now be convenient to state what provision the Legislature has made for assisting the shareholders in meeting these perils and exercising the vigilance that we have shown to be necessary.

There is first the annual return, with its requirements of a full disclosure of all facts tending to place the society's investments in jeopardy, and of a professional audit and inspection of the mortgage securities. Every member, depositor and creditor for loans is entitled to a copy.

There is, next, the provision of section 4 of the Act of 1894, enabling any ten members of a society, each of whom has been a member for not less than twelve months, to apply to the registrar to appoint an accountant or actuary to inspect the books of the society and to report thereon. The applicants are to deposit such sum as the registrar may require as a security for the costs of that inspection, and the person appointed may make copies and extracts from the books of the society at its registered office or at any place where the books are kept.

The writer, in giving evidence before the Select Committee, urged that the right of inspection of books should be absolute, as in the case of friendly societies, subject only to restrictions on the inspection by one member of the personal account of another, and he quoted instances where such a right is given by the rules of the societies; but

this was strongly opposed by the representatives of the building societies, and the view of the Committee was against it, although Mr. Ludlow, the former chief registrar, concurred in recommending it.

Again, section 5 of the Act of 1894 enables one-tenth of the members of a society, or 100 members if the society consists of more than 1,000 (which is the case in eighty societies, three of them having more than 10,000) to apply to the registrar either to appoint an inspector to examine into and report on the affairs of the society, or to call a special meeting of the society. The applicants are to show that they have good reason for doing so, and are not actuated by malicious motives, and are to give security for the costs, and the registrar is not to act without the consent of the Secretary of State. When the application for calling a special meeting is granted, the Registrar is to direct at what time and place the meeting is to be held, and what matters are to be discussed and determined at it; and the meeting is to have power to appoint its own chairman, notwithstanding any rule of the society to the contrary. The registrar is to direct whether the expenses of and incidental to the inspection or meeting are to be defrayed by the applicant or out of the society's funds or by its members or officers or former members or officers.

Moreover, any three members may, in case of need, set these powers of the registrar in motion,

if they can satisfy him by statutory declaration that there are facts which call for investigation or for recourse to the judgment of a meeting of the members. In that case, he will first send a copy of the statutory declaration to the society concerned, which will have an opportunity within fourteen days of furnishing to the registrar an explanatory statement in writing by way of reply; and he will report the whole matter to the Secretary of State and obtain his consent before taking further action. In this as in other inspections, the inspector may require the production of all or any of the books, accounts, securities and documents of the society and may examine on oath its officers, members, agents and servants in relation to its business; and the authority of the registrar as to the costs equally applies, but no security for the costs is taken from the members who made the statutory declaration upon which the proceedings are based. The registrar may exercise the like powers against a society in default of making or correcting or completing any return required by the Acts.

These measures, if used in time, may rescue a society from its peril; but when that is too late, and a society is unable to meet the claims of its members, and it is for their benefit that it should be dissolved, then one-tenth of the members or 100 members in any case may apply to the registrar for a compulsory dissolution. He will give two months' notice in writing to the society, and

at the close of that period, will investigate its affairs, and if he finds that the statements of the applicants are borne out by the facts, he may award that the society be dissolved and direct in what manner its affairs are to be wound up. If he finds that any alterations in its rules would improve the society's position, and prevent the necessity for an award of dissolution, he may suspend making that award until the society has had the opportunity of making that alteration. Whether a society is insolvent or not, three-fourths of its members holding two-thirds of the total number of shares may at any time dissolve it by their signatures to an instrument of dissolution.

CHAPTER VII.

THE BUILDING SOCIETY OF THE FUTURE.

BEFORE proceeding to consider the probable future that lies before the building society, it may be worth while to cast a cursory glance over building societies in the Colonies and foreign countries. We are under the impression, however, that with the exception of some of our Colonies that have adopted laws based on the Imperial Legislation, few if any countries have a system in which, as in this country, all other securities than mortgage of real or leasehold estate are absolutely prohibited. Though, therefore, there may be societies of which it may be said that the whole of their business, or the major part of it, is conducted on building society principles, there are not always the means of distinguishing between such societies and those which avail themselves of their greater freedom of investment, and lend upon miscellaneous kinds of property. The building society movement takes in such countries the name of loan and investment societies, or some similar name not absolutely distinctive.

The building societies of Victoria, Australia, passed through a severe crisis some years ago,

caused, we think, mainly by over speculation and by what is expressively called a slump in land values, but are, we understand, now recovering their lost ground. In the other Australian Colonies, building societies are organised mainly on the British model, and have secured a moderate degree of success.

They flourish in the Dominion of Canada, where they are of the mixed character of loan companies and building societies. At the end of the year 1904, their liabilities to stockholders were £13,650,844 and to the public £21,726,158; their current loans on various securities £28,140,326 (of which more than 90 per cent. was secured on real estate), and their property owned £7,236,676.

In the United States, according to the Hon. Carroll D. Wright, Commissioner of Labour (*Encyc. Britt.* 10 Ed. xxvi. 441), "Building and Loan Association" is a general term applied to such institutions as mutual loan associations, homestead aid associations, savings fund and loan associations, co-operative banks, co-operative savings and loan associations, and generally to private corporations for the accumulation of savings and for the loaning of money to build homes. Their methods do not materially differ from those of British societies, except that shares are usually issued in series, and that a premium is required from the borrower, even where loans are awarded to the members in the order of their application or by lots. There are nearly seventy

different plans for the payment of premiums on real estate loans in vogue in different associations in different parts of the United States. There are also about twenty-five plans in existence for the distribution of profits. Most building and loan associations confine their operations to the county in which they are situated; but some extend their enterprises even beyond the borders of their own State. In such a national association, the dues are generally *2s. 6d.* a share per month, out of which *4d.* or *5d.* is carried to an expense fund and thus lost to the shareholders. Mr. Wright states that the creation of an expense fund has sometimes been the source of disaster, and that the growth of these associations has been very rapid since 1840. They are now about 6,000 in number, and in 1893 the paid capital of the members exceeded £90,000,000.

In Belgium, a mixed official and philanthropic system exists, under which fifty-five committees of patronage of workmen's dwellings and of provident institutions have been formed, partly nominated by the Government and partly by the local authorities. The Government savings bank, with the consent of these committees, has authority to lend money at 3 or even 2½ per cent. to societies of construction and societies of credit to enable their members to become owners of their habitations by advances from the society. The societies are allowed to advance nine-tenths of the value of the house, the member finding the other tenth.

The member pays 4 per cent. interest, and a premium of assurance sufficient to produce the sum lent at the end of a term of years or earlier in the event of his death. There are 195 such societies in existence, of which 160 receive the assistance of the savings bank, which has advanced to them in all £2,400,000, by means of which 40,000 workmen have been enabled to buy their own houses, while at least twice that number have received fiscal assistance from the Government for the same purpose, without obtaining an advance from a society. These and other privileges are extended to working men only.

In Germany, building societies exist and are grouped among the self-help societies generally, of which they do not number more than one in a hundred. The credit associations founded by the late Herr Schulze Delitzsch overshadow them largely. There are other societies of a mixed philanthropic character which promote the improvement of workmen's dwellings and the acquirement of ownership upon easy terms.

It is possible that information of the extension of the building society movement into other countries might be obtained; but either for the reason that there is no special legislation applicable to them, or that they are not managed on the same lines as the British building societies, or that returns relating to them are not published, it would be a matter of some difficulty to procure it, and the labour of doing so would

probably not be rewarded by any more valuable result. Enough has been said to show that the building society movement has an international value, and that the same practical considerations apply to it in the colonies and foreign countries that we have found to be applicable to it at home.

One consideration, bearing upon the future of building societies in the United Kingdom, is the increasing competition for their business. The co-operative societies have long been engaged in lending their surplus money to their members upon security of houses. The power to undertake dealings of any description with land and to carry on the trade of the buying and selling of land was conferred upon them by an Act passed in 1871, and when the Act had been only one year in operation they had invested £230,000 in that manner. By the time the Act had been twenty years in operation, their investments on landed security had increased to £2,500,000. We have no doubt that that increase continues, and that at the present day the amount is much larger. The result is that, to a large extent out of the profits of the societies, many thousands of their members have been enabled to acquire houses on the building society principle. Probably comparatively few would have been able to do so by means of an ordinary building society. Most of them owe their power to effect the necessary saving to the profit earned on their investments in the co-operative society and to the

economy in expenditure which that society has secured for them.

Under the same Act of 1871, more direct competition with the building societies was rendered possible, by the creation of industrial and provident land and building societies for the purpose of carrying on the trade of buying and selling land. This has not, however, operated to any large extent. The total number of such societies is 109. Their liabilities to the holders of shares are £384,612; to depositors and other creditors, £483,346. Their advances on mortgage amount to £551,516, and they hold land to the value of £181,855. That this should be all the result that has been achieved after thirty-two years shows that the societies of this class are not very formidable rivals to the ordinary building society. By the Industrial and Provident Societies Act, 1893, no member can hold any interest in the shares of a society exceeding £200. That is possibly one reason why they have not become popular. In other respects, societies under that Act, enjoy very nearly the same privileges as those of societies under the Building Societies Acts.

Another movement of more importance has much increased of late years. The great friendly societies, watching the result of valuation upon their branches respectively, have come to the conclusion that it is necessary for them to earn the best interest they can upon their funds, consistently with the safety of those funds. The

public funds and the post office savings bank allow only 2½ per cent., and if the society's liabilities and assets have been valued upon the assumption that 3 per cent. will be realised, some better investment than those must be found or the valuation results that are expected cannot be obtained. Casting about for a more profitable investment, the societies have arrived at the conclusion that nothing can be more remunerative to them, and more advantageous to their members, than granting loans to members on the security of houses and land on the building society principle. In order to carry this out with the least delay and to the most advantage, they have pooled the funds of their various branches into district funds for the purpose of investment, and have thus collected together very considerable sums of money.

The growth of this movement may be tested by two returns: one made in 1877, the other in 1899. In 1877 the proportion of the funds of friendly societies invested in savings banks, in the public funds, and with the National Debt Commissioners, was 42 per cent., and the proportion invested in land, buildings and mortgages, 30 per cent. In 1899, the proportion invested in those several Government Securities had fallen to 22½ per cent., while the proportion invested in land and mortgages had risen to 52 per cent. The figures are:—Government Securities, £7,448,758; land and mortgage, £17,152,322. It may be conjectured that there has been a transfer of something like six or

seven millions of money from one security to the other in the twenty-two years. The application of so considerable a fund to purposes which are virtually the same as those of a building society cannot be without some effect on the market for building society operations, and will probably, in districts where it is systematically carried on, have some tendency to restrict the expansion of the building societies.

Another competitor appears to be of less importance. By an Act of 1899, the Small Dwellings Acquisition Act (62 & 63 Vict. c. 44), local authorities were empowered to advance money for enabling persons to acquire the ownership of small houses in which they reside. The amount to be advanced is not to exceed four-fifths of the market value or £250 in the case of leaseholds with more than 60 and less than 99 years unexpired; and £300 in the case of freeholds and of leaseholds with 99 years unexpired; and no advance is to be made on a leasehold with less than 60 years unexpired or for the purchase of a house worth more than £400 in market value. The local authority is to be satisfied that the applicant resides or intends to reside in the house, and that it is in good sanitary condition and in good repair. Until the advance is repaid, the owner must reside in the house. The repayments may extend over a term of years not exceeding thirty, and may be by equal instalments of principal with diminishing payments of interest or by building society annuities combining principal

and interest. The borrower may at any time redeem by payment of the balance of principal.

On the passing of this Act, we expressed the opinion that there need be no apprehension of any serious rivalry to the business of building societies from it, and we observed that "it is the general experience that, when the Legislature devises new facilities for carrying into effect any beneficial operation, the result is not so much to draw away business from existing bodies as to open a new field and with the improved supply to create a new demand." It could only come into possible competition with that part of the business of building societies which relates to the smaller advances, and though it might be able to charge a lower interest on such advances than building societies generally charge, the burden of the statutory conditions as to residence and otherwise would operate in favour of the societies to which those conditions do not apply. Again, the local authority is limited to one transaction with each person, whereas it is a common experience of building societies that a man who has bought his own house, when free of the claim of the society, seeks to buy another by the same means.

We understand that the practical result has been as we anticipated, and that the statute has not been largely used and has not to any great extent affected the business of building societies.

Another movement which has tended in the same direction is that for the formation of bond

and investment companies. As these are under the Joint Stock Companies Acts, they are not subject to the enactments applicable to building societies, and accordingly make appropriations by ballot, and are not restricted in their investments. On the other hand, their relations with their investing members are unsatisfactory. The rights of those members are defined by a bond or certificate, which compels their continuing to invest, and secures to them only a small surrender value upon withdrawal. The abuses of those companies has been enquired into and legislative amendment suggested by a Committee, of which Mr. Stuart Sim, the present Chief Registrar of Friendly Societies, was a member.

It will thus be seen that numerous rivals, some of them formidable, have been growing round the building society system. It is rather a compliment to that system and a testimony to its success that it should be so. We have seen the Legislature adopting it in connection with a new departure for the benefit of the working classes—the old fashioned and conservative friendly societies finding in it a new element of profit and of safety—the co-operative stores, after helping their members to obtain necessaries and some little luxuries, finding in this system a means of giving them a place in which to enjoy those blessings—and finally, the bond companies taking up its discarded features. Such imitation is surely the sincerest form of flattery;—but that will be poor

consolation to the building societies if the rivalry it has caused should deplete the market open to their profitable operations and should cause them to dwindle and to make way either for those rivals or for some more modern contrivance, and to be shot into the limbo of out-worn causes. Is there any risk of this?

We think not; and if we can show in recent years a steady improvement in the essential conditions of success, we shall do much to relieve the friends of building societies of any anxiety they may feel on the matter. The following table shows for each year since 1896, when the Act of 1894 came into full operation, the number of societies in the United Kingdom making returns, the number of their members, and their total income :—

Year.	Societies.	Members.	Income.
			£
1896	2,635	635,716	33,306,638
1897	2,590	619,741	38,394,220
1898	2,495	612,874	38,221,443
1899	2,390	602,981	38,025,368
1900	2,307	598,329	37,771,262
1901	2,233	591,283	35,816,280
1902	2,190	595,451	38,321,442
1903	2,124	601,204	40,734,866
1904	2,075	609,785	38,729,009

The diminution in the number of societies and that in the number of members from 1896 to 1901 are due to the termination of many of the societies established during the period when the activity

of the building society promoter was at its height and 200 or more societies were registered every year, the average number of new registries now being little more than one-tenth of that number; and these diminutions are not an unhealthy sign. The increase in members since 1901 and that in income apparent throughout the fluctuations of the table are satisfactory.

The following table shows the amounts due to shareholders, to depositors and other creditors, and the net profit balances :—

Year.	Due to Shareholders.	Due to Creditors.	Net Profit.
	£	£	£
1896	34,845,218	19,030,242	2,521,997
1897	34,638,953	20,022,401	2,617,453
1898	34,606,447	21,533,550	2,872,977
1899	35,106,204	22,580,361	3,089,943
1900	35,701,899	21,876,204	3,257,477
1901	36,228,051	22,371,256	3,478,535
1902	37,244,532	23,045,875	3,616,680
1903	38,312,729	24,161,484	3,723,014
1904	39,408,430	24,838,290	3,901,877

Here the first column shows a steady increase since 1898, the second column a continuous increase in every year but one, and the third a continuous increase throughout, giving strong evidence of the growth of public confidence in societies and of the correctness of the policy of the managers in strengthening reserves.

The following table shows the balance due on

mortgage securities, the other assets, and the mortgages in possession or in arrear :—

Year.	Mortgages.	Other Assets.	Mortgages in Possession or in Arrear.
	£	£	£
1896	43,350,439	13,047,018	6,322,172
1897	43,619,576	13,659,231	5,379,009
1898	44,449,008	14,563,966	4,498,247
1899	45,553,419	15,223,089	3,774,154
1900	46,617,643	14,217,937	3,342,486
1901	47,866,207	14,211,635	3,063,413
1902	49,244,581	14,662,506	2,798,585
1903	51,396,980	14,800,247	2,684,916
1904	53,196,112	14,952,485	2,665,699

Here the first column shows a steady increase and the third column a steady diminution throughout, testifying to the energy of the managers in pushing the legitimate business of the societies, that is, the business of lending money on mortgage, and to their success in getting rid of doubtful business—the mortgages in possession and in arrear having been reduced in eight years to 42 per cent. of what they were.

The progress of building societies during the last eight years has responded to every test, and has shown no signs of weakening. We may therefore look forward with confidence to their continuous usefulness and success. One question alone remains :—in what direction we are to look for such amendments in their practice as may enable them to meet the growing competition still more effectually ?

Obviously, the first person to be encouraged is the borrower. The building society exists for him. He is its *raison d'être.* When one compares the way he was treated in the early days of building societies with the treatment he receives now, one may well doubt whether there is anything more that can be done for him than is already done. The exorbitant interest he had to pay has given place to much more moderate rates. The fines for falling into arrear, which used to be heavy, are now in general much more moderate. The exorbitant terms of redemption are not now usually enforced. Provision is made for moderate law and surveying charges, and they can if required in many cases be advanced as an additional loan on security of the property. If the ingenuity of the building society can devise any other means to attract him, it may be trusted to do so.

The investor is also a necessary person to the success of a society, whether he is shareholder or depositor. He will have to be content, no doubt, with a moderate rate of interest, compared with the high rates that used to be earned in the early history of building societies. Depositors cannot now treat themselves to the fearful joy of a run upon the bank; for every deposit is accepted on the express condition that a month's notice may be required before repayment or withdrawal. That is a luxury that they are all the better for having to forego. They are compensated for the loss of it by the increased security which is

given them in the publicity which the Act enforces, and by the evidence of careful management which has been brought out by the returns showing the remarkable and steady diminution in the properties in possession and in arrear. Subject to the primary consideration of the safety and continuance of the society, and of the preference to which those who remain with it are entitled, it would be wise to impose no difficulties in the way of withdrawal. Where it becomes necessary that withdrawals should be delayed, every information as to the real condition of affairs is due to the shareholder who desires to withdraw, so that he may have an idea how many withdrawing members are in front of him and when his turn for payment may be expected to arrive.

It is beyond the scope of this little book to discuss at length the practical details of building society management. For those we would refer to a work of Mr. Edward A. Scratchley (son of the author before mentioned), entitled "Practical Hints for Officials of Building Societies," published at the office of the *Building Societies Gazette*, a valuable journal founded by the late Mr. Reed.

We arrive, then, at the conclusion that the building society, as the Americans put it, has "come to stay," and that the seventy years of past experience, since the statute of 1836 was enacted, may be followed by a career of equal activity and progress for many years to come. Some five-and-twenty years ago, we wrote that "few institutions

are capable of greater usefulness, or have produced more valuable results in the development of providence and the accumulation of savings, than building societies. As compared with a well-constituted building society, a trustee or Post Office Savings Bank is as the infant to the grown man; in the one the depositor hands over the money to the trustees or to the postal authorities to take care of it for him, in the other he becomes a member with the same right as any other member to watch over the safety of his investment and to take part in the management of it. The judicious investor in a building society has therefore made great advances in self-education over the mere depositor in the savings bank. He has learned that, if you desire not merely to save but to improve your savings to the best advantage, you must not trust them to others to invest for you, but you must invest them for yourself. It may now and then happen that he may have to learn from experience that high interest means bad security, especially if the society he joins is so large a one that he is precluded from watching over its management because the stake he has in it is so small; but the more he learns to use discrimination and judgment in the selection of a society, the less likely he is to suffer loss."

The large capital sum invested in building societies belongs for the most part to the industrial classes of this country, and this fact is eloquent as to he efforts those classes are making towards the

bettering of their condition. The severe lessons which the societies have been taught by the crisis through which they have passed have been taken to heart, and all indications show that their condition is healthier and that they have entered upon a career of continuous improvement. If that is so, there is no lover of his country who will not heartily wish them success.

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FRIENDLY SOCIETY.

Estbd. 1850.

Funds, £2,500,000.

Paid in CLAIMS, &c., £8,000,000.

Nearly £100,000

Paid in 1905 as CASH BONUSES to Old Members.

ASSURANCES / ENDOWMENTS up to - **£200.**

Unique facilities for the Purchase of Houses by Members.

Chief Offices:

Prescot Street, LIVERPOOL.

Leicester Permanent Building Society,

14, Friar Lane, LEICESTER.

ESTABLISHED 53 YEARS. ***Reserve Fund, £17,500.***

Receipts 1905 - - £236,000.

INVESTMENT SHARES:—£100 realised by 12 monthly payments of 10s. for 13 years.

PAID-UP SHARES:—£50 and upwards at 3½ per cent. interest payable half yearly.

DEPOSITS:—£20 and upwards at 3 per cent. interest payable half yearly.

ADVANCES:—Repayment by easy monthly instalments. No premiums. No expense payments. No redemption fees. Low rate of interest.

Monthly repayment for each £100 borrowed:—

20¾ years.	16½ years.	15 years.	10½ years.
12s.	**14s.**	**15s.**	**20s.**

For Prospectus and additional information, apply—

J. H. DAVIS, *Manager.*

PRINCIPALITY

PERMANENT INVESTMENT

BUILDING SOCIETY.

Established 1860. Incorporated 1876.

BY FAR THE LARGEST BUILDING SOCIETY IN WALES.

DEPOSITS (large or small) received at 3 per cent.

PREFERENTIAL SHARES (£50 upwards) issued at 4 per cent.

SUBSCRIPTION SHARES, for monthly payments of 10s. upwards, issued at 4 per cent.

LOANS ON MORTGAGE on simplest and most equitable terms.

TWO MILLIONS ALREADY ADVANCED UPON OVER 10,000 HOUSES.

Full Prospectus and Balance Sheet may be obtained from the Managing Secretaries—

WM. SANDERS & SONS,

28, St. Mary Street, CARDIFF

Woolwich Equitable Building Society.

THE PREMIER BUILDING SOCIETY OF KENT.

Incorporated under the Building Societies Acts, 1874 to 1894.

ESTABLISHED 1847.

Total Assets	£1,060,000.
Annual Revenue	£500,000.
Reserve and Undivided Profit	£100,000.
A Cash Reserve of	£100,000

Guaranteed by one of the strongest and wealthiest British Life Assurance Offices.

Investments for Income.

Deposit Bonds, £100 and upwards, 3½ per cent. per annum.
Preference Shares, £50 each, 4 per cent. per annum.
Investment Shares D, £50 each, commencing at 4½ per cent., increasing to 4¾ at end of 3 years, and to 5 per cent. at end of 5 years.
Interest paid half-yearly in each case, namely, on 30th June and 31st December.

Accumulative Investments.

Investment Shares A, £45 each, maturing in 100 months. Now realising £77 on completion.
Investment Shares B, £26 10s. each, or by subscriptions of 10s. per month, maturing in 60 months. Now realising £35 10s. on completion.

Advances on Houses or Land.

Repayable by easy monthly instalments. Law and Survey Costs low. No Premiums charged. No costs for re-assignment.

By whatever standard it may be judged, the Woolwich Equitable fulfils all the requirements laid down by the most rigid rules for the conduct and progress of a sound and well managed Building Society.

For Prospectus and further information apply to the Secretary, Mr. GEORGE BISHOP, F.C.I.S., The Offices, 113, Powis Street, Woolwich.

LEWES
Co-operative Benefit Building Society

Established 1870. Incorporated 1876.

ECONOMICAL FOR BORROWERS.
SECURE FOR INVESTORS.

Write to the Secretary, ARTHUR E. RUGG, 1, Fisher St., LEWES, for all particulars. They will interest you.

Nineteenth Century Building Society.

Established 1880.

Directors.

Sir HENRY LAWRENCE, Bart., MARK H. JUDGE, A.R.I.B.A.,
Miss CECIL GRADWELL, F. H. A. HARDCASTLE, F.S.I.,
A. W. LAWRENCE, Miss ELIZA ORME, STEPHEN S. TAYLER.

Preference Shares £10. **Interest, four** per cent. per annum.

Prospectus free of CHARLES A. PRICE,
Manager and Secretary.

Adelaide Place, London Bridge, E.C.

The Fourth Post Office Mutual Building Society,

181, QUEEN VICTORIA STREET, E.C.

ESTABLISHED 1896.

Subscription Shares, 4/- per share per month.

Deposits Received, at 3½ per cent. free of Income Tax.

Advances Made repayable by Instalments, or on Permanent Mortgage.

Monthly Repayments for each £100 for 10 years £1 0s. 4d., for 15 years, 14/8 : other periods at proportionate rates.

Membership not Limited to Civil Servants.

Some Special Features.

Working Expenses Extremely Low. Loans combined with Life Insurance at rates not higher than charged elsewhere for Loans only. No fines for arrears of subscriptions.

Send for Booklet:—"How to buy a House."

TEMPERANCE

PERMANENT

BUILDING SOCIETY,

4, Ludgate Hill, London, E.C.

Established 1854. Incorporated 1875.

FOUR PER CENT. £30 SHARES now being issued.

THREE PER CENT. DEPOSITS received in large or small sums.

SHARES AND DEPOSITS withdrawable at short notice.

INTEREST ON SHARES has never varied for thirty-four years.

INTEREST ON DEPOSITS has never varied for twenty-five years.

£1,650,000 DISTRIBUTED among Shareholders and Depositors as interest since 1854.

MORTGAGE ASSET, at the close of 1905, £1,883,000, secured on upwards of 6,000 properties.

RESERVE FUND, at the close of 1905, £117,000, being the largest reserve of any Incorporated Building Society in the kingdom.

ADVANCES ON HOUSE PROPERTY promptly and economically made.

£9,700,000 advanced upon property since 1854.

Temperance Permanent Building Society,

4. LUDGATE HILL, LONDON, E.C.

For Prospectus and Forms apply to EDWARD WOOD, *Manager*.

Halifax Permanent Benefit

BUILDING SOCIETY.

ESTABLISHED 1853.

Head Office: 7, Princess Street, Halifax.

Branches in 55 Towns and Villages.

THERE are departments open for all classes of investors, and advances of large or small sums are granted upon mortgage of Freehold, Leasehold, or Copyhold Properties at 4 per cent. interest, and are repayable over various periods of time to suit the convenience of borrowers. There are no fees, commissions, premiums, or deductions.

The Society has now **over 20,000 open accounts.**

RECENT PROGRESS.

Year.	Open Accounts.	Share and Deposit Funds.	Assets.	Reserve Funds.
1904	... 15,591	£1,393,245	£1,489,594	£97,349
1905	... 18,015	£1,476,565	£1,582,547	£105,982
1906	... 19,966 (now over 20,000)	£1,605,010	£1,716,334	£111,324

Prospectuses, Balance Sheets, and every information free on application.

ENOCH HILL, *Secretary.*

B.S. M.

BIRKBECK BANK.

ESTABLISHED 1851.

CURRENT ACCOUNTS.

Current or Drawing Accounts are opened with Private Individuals or with Trading Firms.

Two per cent. Interest is allowed on the minimum monthly balances when not drawn below £100.

DEPOSIT ACCOUNTS.

Deposit Accounts repayable on demand are opened with any sum.

Two-and-a-Half per cent. Interest is allowed, calculated from the last day of the month in which the deposit is made; in the case of withdrawals Interest ceases at the end of the previous month.

Twelve withdrawals may be made during the year. Deposit Accounts are not drawn on by cheque, but by the special form of receipt supplied by the Bank.

DEPOSIT RECEIPTS.

Deposit Receipts, subject to seven days' notice of withdrawal, are issued at the Rate of Interest allowed by the leading London Bankers; alterations in the rate are announced by advertisement only.

STOCKS AND SHARES.

Stocks and Shares are purchased and sold for Customers at the Bank. Quotations of prices of any Stocks can be obtained without delay, the Bank being in communication with their Stock Brokers by private telephone.

A Stock and Share List, containing also a list of Trustees' Securities, is issued on the first day of each month, showing the latest quotations of all the principal Stocks, with the yield per cent. at current prices.

TEMPORARY ADVANCES.

Temporary Advances are made to Customers on Stock Exchange Securities, and upon Freehold and Leasehold Title Deeds.

FOREIGN DRAFTS.

Foreign Drafts and Advices, Letters of Credit, and Circular Notes are issued for all parts of the world.

CLARENCE F. RAVENSCROFT, *Secretary*,

Southampton Buildings, High Holborn, London, W.C.

BUILDING SOCIETIES' ASSOCIATION,

73, Ethelburga House, 70, Bishopsgate St. Within, London, E.C.

PRESIDENT—
The Right Hon. LORD AVEBURY, F.R.S.

VICE-PRESIDENTS—

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J. H. Whitley, Esq., M.P.

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Mr. J. Anderton (Lombardian, Manchester).
Mr. G. Bishop (Woolwich Equitable).
Mr. C. Johnstone Burt (Westbourne Park Permanent).
Mr. C. B. Catnach (Northern Counties, Newcastle-on-Tyne).
Mr. G. W. Craven (Leeds Provincial).
Mr. C. G. Cutler (West London Permanent).
Mr. J. H. Davis (Leicester Permanent).
Mr. W. L. Grant (Burnley).
Mr. John Higham (Fourth City Mutual).
Mr. G. Lane (Abbey Road and St. John's Wood).
Mr. D. Lewis (Cheltenham and Gloucestershire).
Mr. J. Moody-Stuart (Leeds Permanent).
Mr. E. Naylor (Bradford Third Equitable).
Mr. Clement A. Ravenscroft (Birkbeck).
Mr. C. F. Sanders (Principality, Cardiff).
Mr. A. Webb (Co-operative Permanent).

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Mr. EDWARD WOOD, J.P.

AUDITORS—
Mr. E. R. PAINTER (London Grosvenor).
Mr. T. W. DANNATT (Industrial).

BANKERS—
THE LONDON CITY AND MIDLAND BANK, LIMITED,
BISHOPSGATE STREET, WITHOUT.

SECRETARY—
Mr. R. H. MARSH.

BIRKBECK BANK.

ESTABLISHED 1851.

CURRENT ACCOUNTS.

Current or Drawing Accounts are opened with Priva[te] Individuals or with Trading Firms.

Two per cent. Interest is allowed on the minimum monthly balances when not drawn below £100.

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Deposit Accounts repayable on demand are opened with any sum.

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OBJECTS.

This Association was re-established on its present basis in 1869 for the purpose of protecting the interests and privileges of Building Societies; by collecting for the use of Subscribers all legal decisions affecting these important Institutions, and for calling their attention to any legislative measures that may be proposed.

ANNUAL SUBSCRIPTION.

Societies consisting of not more than 250 Members, £1 1s.; of over 250, but of not more than 500 Members, £2 2s.; of over 500, but of not more than 1,000 Members, £3 3s.; and for Societies of over 1,000 Members a minimum subscription of £4 4s. Societies subscribing are entitled to appoint their Chairman or other Officer, and the Secretary or Manager of the Society to represent them at the General Meetings of the Association.

Subscriptions become due either on January 1st, April 1st, July 1st, or October 1st in each year, according to the date of entry.